POLICY AND PROCEDURE FOR THE DEVELOPMENT OF WATER RESOURCES

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BEFORE THE

COMMITTEE ON PUBLIC WORKS
HOUSE OF REPRESENTATIVES

EIGHTY-SIXTH CONGRESS

FIRST SESSION

ON

H.R. 8

JULY 9 AND 10, 1959

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POLICY AND PROCEDURE FOR THE DEVELOPMENT OF WATER RESOURCES

THURSDAY, JULY 9, 1959

HOUSE OF REPRESENTATIVES,
COMMITTEE ON PUBLIC WORKS,
Washington, D.C.

The committee met, pursuant to notice, at 10 a.m., in room 1302, New House Office Building, Hon. Clifford Davis presiding.

Present: Representatives Davis, Fallon, Frank E. Smith, Hull, Clark, Edmondson, Pfost, Hargis, Burke, Johnson, Mack, Scherer, Cramer, Baldwin, Schwengel, Dooley, Robison, Taylor, and Mumma.

Mr. DAVIS. The committee will be in order.

We are meeting this morning to consider H.R. 8, by our esteemed colleague Mr. Trimble, a bill to promote and to establish policy and procedure for the development of water resources of lakes, rivers, and streams.

(H.R. 8 follows:)

[H.R. 8, 86th Cong., 1st sess.]

A BILL To promote and to establish policy and procedure for the development of water resources of lakes, rivers, and streams

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Water Conservation Act of 1959".

SEC. 2. PURPOSE.—In order to protect and promote the general welfare of the United States, commerce among the several States, and the security and defense of the United States, it is the purpose of this Act to establish a sound national water-resources policy generally applicable to the development, utilization, and conservation of water resources by the United States.

SEC. 3. POLICY.—Whereas the future strength and prosperity of the United States depends directly upon conservation, through the efficient development and wise use of the water and land resources of the Nation, it is declared to be the policy of the Congress that:

(a) The river basin shall be deemed a single resource which, in whole or in part, or in combination with other basins or portions of basins as provided for this Act, shall constitute the basis for the development, utilization, and conservation of water resources by the United States.

(b) In order to provide a broader base for an expanding national economy, development of water resources by the United States shall be based upon adequate and reliable data and shall be so planned and prosecuted on a comprehensive multiple-purpose basis as to achieve maximum sustained usefulness of resources for all beneficial purposes which may be served consistently with this Act.

SEC. 4. As used in this Act—

(1) The term "unit" means a complete development at one location, which may consist of one or more facilities.

(2) The term "project" means all of the "units" and facilities in the development of a river basin, or an integral part thereof.

(3) The term "primary benefits" means the value of the immediate products or services resulting from the measures for which project costs and associated costs are incurred.

(4) The term "secondary benefits" means the values over and above the value of the immediate products or services of a project as a result of activities induced from the project.

(5) The term "tangible benefits" means benefits measurable in monetary terms.

(6) The term "intangible benefits" means benefits which are not measurable in monetary terms.

(7) The term "project costs" means the monetary costs of goods and services used for the establishment, maintenance, and operation of a project.

(8) The term "associated costs" means the monetary costs of goods and services needed, over and above those included in the project costs, to make the immediate products or services of a project available for use or sale.

(9) The term "secondary costs" means the monetary costs of any goods and services (other than project costs and associated costs) which are used as a result of a project.

(10) The term "principal purpose" means the purpose served by the unit or project in the absence of which development of the unit or project would not normally be undertaken by the Federal Government: *Provided*, That where a unit or project is part of a plan embodying an integrated river basin development, the principal purpose of the unit or project shall be the same as the principal purpose of the comprehensive plan.

(11) The term "comprehensive plan" means a plan for conserving, developing, or improving the water resources of a river basin and its watershed to obtain the optimum public benefit from such resources for all beneficial public uses during the economic service life of existing and proposed projects, in which plan no projects shall result in an unnecessary limitation upon the multiple purpose use of such water resources, taking into account other possible projects within the river basin for the development of water power and other purposes.

SEC. 5. (a) The entire basin of a river, stream, or lake, or any integral part thereof, shall be considered as a whole for the purpose of formulating comprehensive plans and for the purpose of determining justification and making recommendations to Congress for authorization and appropriations for the development thereof.

(b) All purposes contributing benefits to the well-being of society, including flood control, conservation storage, navigation, electric power, reclamation, domestic, municipal, and industrial water supply, recreation, fish and wildlife development, pollution control or abatement, watershed management, salinity control, down-stream benefits, agriculture and any others, shall be included in reports and recommendations to the Congress made with respect to any unit or project. Such reports and recommendations shall include the recommendations of such agency or agencies as will market the products and services of the unit or project, shall show the total cost of the project or unit (including primary, secondary, and associated costs), shall show the total benefits of the unit or project (including tangible and intangible, primary and secondary benefits), shall show the allocations of unit or project costs to each of the purposes proposed to be served, and shall show the estimated life expectancy of the unit or project. All benefits, to the extent possible, shall be expressed in dollar values, and all benefits not expressed in dollar value shall be described. The policy is hereby established that when the total benefits, tangible and intangible, primary and secondary, are determined to exceed the total costs of a unit or project, a favorable recommendation for authorization shall be made by the agency making the study. It shall report its findings to the Congress.

(c) When a project or unit is recommended pursuant to subsection (b) any unit, facility, or feature whose costs will exceed the benefits to be derived therefrom may be included in such recommendations if the inclusion of such unit, feature, or facility will not reduce the total benefits below the total cost of the project or unit.

SEC. 6. Whenever any department, agency, or independent establishment in the executive branch of the Government determines the costs to be allocated to each of the several purposes served by a navigation, flood control, irrigation, or multiple-purpose project on a river, stream, or lake, the following rules shall obtain:

(1) Except as provided in paragraph (3), the cost of the features and facilities of the project which relate to the principal purpose of the project shall be determined, and shall be allocated to the principal purpose of the project.

(2) The cost of features and facilities of the project which relate to irrigation, other purposes including watershed management, domestic, municipal or indus-

trial water supply, recreation development, fish and wildlife development, pollution control or abatement, downstream benefits, agriculture, and any other benefit (except as provided in paragraph 3), shall be determined, and shall be equitably allocated among such purposes.

(3) The cost of features and facilities of the project which relate to electric power shall be the amount obtained by subtracting (A) the cost of construction or modification of the project without features and facilities relating to electric power, from (B) the cost of construction or modification of the project with features and facilities relating to electric power. The amount so determined shall be allocated to the cost of the features and facilities of the project which relate to electric power.

SEC. 7. Whenever any department, agency, or independent establishment in the executive branch of the Government determines the benefits to be allocated to the various purposes served by a navigation, flood control, irrigation, or multiple-purpose project on a river, stream, or lake, the following rules shall obtain:

(1) Benefits attributable to the project shall be determined by taking into account the economic and other development of the area which may be expected if the project is adopted. The calculation of benefits attributable to the unit or project shall be based upon full development and utilization of the unit or project and such other units or projects of the comprehensive plan as may be reasonably expected to develop in the future. The monetary value of any benefit attributable to the unit or project shall be based not only upon present economic values, but also upon projected economic growth anticipated to occur during a reasonably foreseeable period in the future.

(2) Benefits from the construction or modification of the project which relate to each of the various purposes served by the project shall be determined and allocated to each such purpose.

(3) Benefits from the construction or modification of the project which relate primarily to electric power shall be determined and allocated to electric power, and shall be equal to whichever is the lower, (A) the cost of electric power from the cheapest alternative source of such power that is available, or can reasonably be expected to develop in the area in the absence of the electric power features of the project, to meet the same power needs (including in such cost any taxes that will be paid, or payments in lieu of taxes that will be made by such alternative source, and also including interest charges on capital at the rate it will be paid by such alternative source), or (B) the value of such power to users, computed as the highest price such users would pay for such power in those instances where the cost of electric power from the cheapest alternative source of such power that is available is prohibitive. In no event shall an alternative source of electric power be considered as available, or as expected to develop, unless there is a reasonable likelihood that such alternative source of power will actually be available or develop; nor shall a Federal source of electric power be considered as available or expected to develop unless such Federal source of electric power is authorized by law.

SEC. 8. (a) Whenever any department, agency, or independent establishment in the executive branch of the Government determines the rates to be charged for electric power from any project on a river, stream, or lake, such rates shall be established so as to recover, through annual depreciation charges, the costs allocated to the features and facilities of the project, other than land and land rights, which relate to electric power, plus interest on remaining investment thereon, the costs without interest allocated to the features and facilities of the project which relate to irrigation but which are beyond the ability of the irrigators to pay for, over the useful life of the project or a period of one hundred years, whichever is the shorter, plus the other annual operating costs of such features and facilities. In the above determination, that portion of the electric power features and facilities of the project which are to be used for irrigation purposes shall be allocated to irrigation. The rate of interest shall be equal to the average rate of interest (as determined by the Secretary of the Treasury) borne by all marketable interest-bearing obligations of the United States forming a part of the public debt and issued by the United States during the fifteen fiscal years immediately preceding the fiscal year in which funds are first appropriated for the construction or modification of such features or facilities; except that where such average rate is not a multiple of one-eighth of 1 per centum, such rate of interest shall be the multiple of one-eighth of 1 per centum next lower than such average rate.

(b) As soon as is practicable after commercial power production has begun (subsequent to the date of enactment of this Act) at any project following con-

struction or modification thereof, the department, agency, or independent establishment having jurisdiction over such project shall determine the costs to be allocated to each of the purposes served by the project, the proposed amortization period and justification therefor, and shall report thereon to the Congress. Until such report has been transmitted to the Congress, rates charged for electric power from the features or facilities constructed or modified shall not exceed an amount sufficient to recover annually 5 per centum of the Federal investment in the powerhouse and substation, and in generating and other power equipment in operation.

SEC. 9. Except as provided in section 5 (b) and section 7, the provisions of this Act shall govern the determination and allocation of costs and benefits, and the determination of rates to be charged for electric power, in the case of all navigation, flood control, multiple purpose, or other projects (whether constructed before or after the date of enactment of this Act) on rivers, streams, or lakes. In the case of projects constructed before the date of enactment of this Act, such costs, benefits, and rates shall be redetermined in accordance with this Act as soon as is practicable after the date of its enactment.

SEC. 10. None of the provisions of this Act shall apply to units or projects (A) developed or to be developed pursuant to the Tennessee Valley Authority Act of 1933 or (B) for which the allocations of costs have been previously determined by Congressional enactment.

Mr. DAVIS. This bill presents a change in long-existing economic policy. For that reason the committee wants to get right down to business and to hear the sponsors of several bills—we have some other bills.

Judge Trimble, will you come around, please?

Judge Trimble was formerly a member of this committee, a very valued member. We are delighted to welcome you on the other side of the table, this morning, Judge. You know our procedure. In your own way, I wish you would open the discussion on your bill.

Mr. MACK. Before Judge Trimble begins, may I make a few remarks?

Mr. DAVIS. Yes, sir.

Mr. MACK. Mr. Chairman, this legislation has as its purpose the development and utilization of all the water resources of the Nation. It provides for the development and utilization of those waters from the sources of the streams to the sea.

The general purposes of the legislation are good. The problem is of great magnitude, complex and complicated. This legislation, as the chairman has stated, does provide for sweeping changes in existing law as it relates to the allocation of costs in the various purposes of water resource projects. The committee, which has many new members, should have the fullest information possible.

I would like to inquire of the chairman if it is his intention to call as witnesses during these hearings the interested agencies, such as the Interior, Army Engineers, Agriculture Department, possibly the public power bureau, and the Bureau of the Budget and the Comptroller, to provide us with their opinions on this legislation. They have many experts familiar with these matters. I ask whether the hearings will be continued over a period to allow both those opposed and those favorable to the legislation to testify?

Mr. DAVIS. Certainly, Mr. Mack, we want to have the most thorough hearing. I do know that the Chief of Army Enginers will be here personally tomorrow.

The Interior Department will be represented tomorrow.

Our professional engineer and staff member advises that the Bureau of the Budget and Comptroller General have indicated that they do

do not desire to appear personally because they have expressed, by letter, their views.

In the course of the examination and the hearing, if it is deemed appropriate that we should insist that those gentlemen or departments be represented, I am sure we can take action when we reach that point.

Mr. MACK. I understand, Mr. Chairman, that the Comptroller General has submitted a letter. I have a copy. I have not seen a copy of the Budget Bureau letter.

Thank you for your statement, Mr. Chairman.

Mr. DAVIS. Judge, will you proceed?

STATEMENT OF HON. JAMES W. TRIMBLE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARKANSAS

Mr. TRIMBLE. Mr. Chairman and members of the committee, I appreciate deeply this opportunity to testify on H.R. 8. I shall read a brief statement, and then I will enlarge upon it at the end of the written statement.

Mr. DAVIS. All right, Judge.

Mr. TRIMBLE. The introduction of this bill grew out of my distress over the situation which I see in our country. I think I can see that within the next 25 years, if not sooner, one of the great problems of this land of ours will be water, or rather the lack of it.

I was astonished a few years ago to hear the Army Engineers and the Soil Conservation people testify that the water level in America is receding at the average rate of about 1 foot each year. In other words, should I go back to the farm where I grew up and drill for water, as my father did, I would have to go, on the average, 25 feet deeper than he did in order to get enough water to sustain the family and the livestock on the farm.

We are growing rapidly in population; we are growing industrially; so I think that every drop of water which falls should be conserved, and in conservation we should take advantage of every other feasible angle of its use, if it is at all possible.

Another thing concerns me: When a man who is as stable as Senator Ellender of Louisiana makes a trip to Russia and comes back and tells us what he saw—that Russia is developing her water resources to the full; that she is coming out with a power program which will make our power program not only third but maybe fifth—we know he is not talking just to hear himself talk. Our country must not only remain strong defensively and spiritually, but it must remain strong physically, and the power and water program must be carried along in such manner that every feasible project must be built to produce electric energy and conserve water as cheaply as possible.

I have not made a study of the situation in other sections, but I do know that in our own district, in our rural electric cooperatives, there are less than three users to the mile, on the average, and we are losing population every day. That puts an extra burden upon the cooperatives as they serve and expand. If, in addition to the loss of customers, they must assume a higher power cost, it will practically put them out of business.

The water development policies of the Federal Government are not based on any overall criteria set by the Congress. The policy we have for determining the feasibility of river development is that which has been enunciated by three or four agenices of the executive branch. The Army Corps of Engineers, the Bureau of Reclamation, the Bureau of the Budget, and the Federal Power Commission have adopted certain standards and methods which they use in computing the feasibility of projects.

The Congress has not provided them with standards to use, and some formula is necessary. I commend these agencies for taking the responsibility to establish some form of criteria. But it is my belief that the present methods of determining the benefit-cost ratios of water-development projects are too restrictive for full development of our streams and are retarding the progress we should be making in water conservation. It is also my belief that on a matter so vital to our national strength in the contest for world power that the Congress should set the standards and give direction to this area of development.

Because of these considerations, I have introduced this legislation. Its main purpose is to bring control of river development back to the Congress instead of having it in the executive branch of the Government. I quarrel with no particular administration. I do say, however, that development of our rivers is a legislative matter which should be retained in legislative hands. Otherwise, the people of the country may lose control.

It is difficult to go home and run for election every 2 years, but I think it is wise, and I would not change it if I could, because it gives the people a chance to speak often. It is appropriate, then, that we who respond to the will of the people each 2 years set this policy which will give guidance to all agencies of the Government concerned with river development.

The legislation is technical. I shall not attempt to go into all the technical phases of it. When I drew the legislation, with the help of many others, I envisioned that we develop our river programs as a unit, each river as a whole, to make use of every drop of water in conjunction with the upstream projects of the small watershed program. I feel that every muddy rivulet in this land is an indictment of all of us, those of us who serve in the Congress now and those who have served in the Congress before us. We have failed in the complete performance of our duties.

There is concern about this bill from Members from the reclamation States. As for my part, I do not want to do a thing that will injure the program in the reclamation States. If there is anything in the bill which does do injury, so far as I am personally concerned, I hope it is corrected. A provision of section 8(a) of the bill is for protection of the irrigation interests.

Briefly, here are the major provisions of H.R. 8:

Under the bill, the incremental method shall be used in determining cost allocations to all features of a project except the principal purpose.

The payout period for the project would be its useful life or 100 years, whichever is the shorter period.

In developing a river basin, nonfeasible units could be included if the inclusion did not make the whole basin project nonfeasible. The same would be true for nonfeasible features in an individual project, so long as the whole basin remains justified.

All benefits and costs for which dollar amounts can be determined shall be considered in making the computations on whether a project is feasible.

The interest rate charge to be used in determining feasibility shall be the average rate of interest borne by all marketable interest-bearing obligations of the United States during the preceding 15-year period.

The Congress should retain control of the formula which is used to determine the feasibility of our river development programs. As an example, it is my recollection in the Bull Shoals project which was built in our district some years ago, 23 percent of the project's cost was allocated to power. But in the formula in circular A–47, which is in use at this time, 76 percent of the cost of that project would be charged to power. This would make the cost of the power from the dam so high that it would be burdensome not only to the private power companies who receive the bulk of the power, but to the cooperatives and the municipalities, and to all others who use the power.

It is all right with me to require that power which is produced at any dam pay every penny of the cost of the dam and the reservoir, but the total cost of the project should not be the basis for establishing the rates to be charged for the power which comes out of the turbines.

The purpose of the bill is to bring the control of our water-resource development program back to the Congress where it belongs. It sets out certain criteria to guide the Corps of Engineers and the Reclamation Bureau as they labor toward the further development of our water resources, both of whom have done a wonderful job.

I most humbly urge, and sincerely hope, that you, the members of this committee, will act favorably upon this proposed legislation.

I want to add just a further observation. It seems to me that one of the great problems in our program is the so-called taxes-forgone feature criteria that is being used. Under the old formula, under which the dams on, for instance, the White River in our State, the taxes-forgone feature wasn't used. In other words, the test of the value of the power project was what it would cost any private concern, company, individual, or whatnot to construct steamplants with the taxes, interest, depreciation, and so forth. If the power in the dam could match that or overcome it, then it was feasible. But now, under the new formula, it is the taxes forgone. In other words, they match test value of the power that comes out of the project by what it would cost the Federal Government, to build a steamplant at the site, which makes the power come out at a cheaper rate, and the acceptable remaining cost feature of the project charges more of the cost of the project to power, makes cheaper power having to carry more of the load.

It is not unlike a situation where you had a man weighing 180 pounds carry a 50-pound weight. The taxes-forgone switches that around and has a 50-pound man carrying a 180-pound weight, and it makes the power come out of the project so high that it is not

feasible to market. Therefore, a lot of projects more valuable than some already built are not feasible.

I have figures here on an imaginary dam on River X figured on the new formula for cost benefits.

Mr. Chairman, I would like to submit this for the record so that it can be studied by the members of the committee.

SEPARABLE COSTS

Flood control (separate dam)	$100,000,000
Power (separate dam)	75,000,000
Combined flood control and power dam	140,000,000
	140,000,000
	−100,000,000
	40,000,000
	140,000,000
	−75,000,000
	65,000,000

SEPARABLE BENEFITS

Flood control	125,000,000
Power	90,000,000

RATIO OF SEPARABLE COSTS

Separable cost, flood control: $125,000,000 (separable benefits) divided by $40,000,000 equals approximately 30 percent flood control.

Separable cost, power: $90,000,000 (separable benefits) divided by $65,000,000 equals approximately 70 percent power.

Apparent charge to flood control	$50,000,000
Apparent charge to power	25,000,000
Total apparent charges	75,000,000
	140,000,000
	75,000,000
Floating	65,000,000
30 percent of $65,000,000 (charge, flood control)	19,500,000
70 percent of $65,000,000 (charge, power)	45,500,000
Visible flood control	50,000,000
Separable charge	19,500,000
Total flood control	69,500,000
Visible power	25,000,000
Separable charge	45,500,000
Total power	70,500,000
Flood control	69,500,000
Power	70,500,000
Total cost of project	140,000,000

Mr. TRIMBLE. Also, Mr. Chairman, here is an example of the effect of the taxes forgone theory and its effect on dams in our congressional district.

ANNUAL FIXED CHARGES

	Percent
Old formula	11.7
New formula	5.7

Assuming an investment of $125 per kilowatt, this figures as follows as costs:

Old formula	$14.63
New formula	7.50
Difference	7.13

This difference in cost as applied to dams in Arkansas reduces value of power annually as follows:

Greers Ferry	$456,000
Water Valley	242,000
Beaver	613,000
Gilbert and Lone Rock (combined)	820,000
Ozark (approximate)	575,000

Mr. TRIMBLE. Mr. Chairman, with that short statement I conclude my testimony. There are many people here who have come long distances, and Members of Congress.

Mr. DAVIS. You have made a very concise statement as to your position on this bill. I tried to follow you closely. This is far from a simple bill. The seven or eight provisions that you have mentioned that are in this bill, I repeat, are a departure. We are going to make an exhaustive and thorough hearing.

Mr. Fallon, do you have any questions?

Mr. FALLON. No questions, Mr. Chairman.

Mr. DAVIS. Mr. Mack?

Mr. MACK. Mr. Chairman, Judge Trimble, for many years you and I served side by side on this committee and worked together on many water development projects that we believe to be in the interests of the country. I know of your thorough interest in the water development and problems.

You mentioned the taxes foregone provision that is now in existence. There is also the land enhancement provision that enters into consideration of water development.

These were not legislative actions, as you pointed out, but were actions of an executive agency of the Government. Specifically, an action of the Budget Bureau in its directive known as A–47, which has been under considerable controversy before this committee and before the House.

A–47 is not a partisan matter. It was not issued during the Republican administration. It was formalized during the time of President Truman's administration. The reason that it was issued, I think, was because the Congress did not fulfill its function of setting forth the criteria by which the cost of river development projects should be assessed.

Because the Congress failed to act, the Budget Bureau, back in 1952 moved into the picture and set forth that criteria.

I am not going to inquire of you, Judge Trimble, about the technical features of this bill, but I just want to get a statement as to your opinion on the difference between existing law and the proposals of this legislation.

My understanding is that in water development projects under existing law the costs are allocated on the incremental method. That means they take the benefits and the costs of each phase of development, navigation, flood control, reclamation, fish and wildlife preservation, water pollution abatement, recreation, and power, and based on the benefits as relates to the cost, they assess the cost of the project.

That system was used in TVA, it is my understanding it was used in the Bonneville power projects, these have worked out apparently reasonably well under this method. But this bill proposes that the main purpose of the project, whether it be flood control or navigation or both, the cost of the project shall be figured on the benefits to those particular matters, flood control and navigation, and then the power cost shall be assessed solely upon the increased cost that results only from power.

Power under this bill will not bear any of the costs of the basic provisions of the project. If the reservoir created or the dam built is sufficient for the flood control, or the navigation, then the power would be assessed only the cost of putting in the power installations.

Is that a correct analysis of the two bills?

Mr. TRIMBLE. That is an analysis of the bill. I understood you to say that is what they are using now.

Mr. MACK. No. The separate cost method means that the cost of benefit ratio of each element in the project is used as the basis of assessing cost.

Under the new system, this bill's proposal, they would figure the primary benefits to the main purposes such as flood control and navigation, and then charge the power only the additional cost, that of putting in the power installations or facilities to produce the power.

Mr. EDMONDSON. Would my colleague yield?

Mr. MACK. Yes.

Mr. EDMONDSON. I think a more accepted description of the present method being used is the separable costs remaining benefits allocation method.

Mr. MACK. You are correct in that.

Mr. EDMONDSON. I think you are incorrectly describing it as the incremental method that is presently in use.

Mr. TRIMBLE. I thought Mr. Mack was asking about this bill.

Mr. MACK. How does this bill differ from existing law?

Mr. TRIMBLE. It would be just the opposite.

Mr. MACK. It establishes an entirely new method of assessing the power costs.

Mr. TRIMBLE. In flood control and navigation projects it would go back to the formula used on the Denison Dam in Texas where power costs, the costs of adding power to the project would be——

Mr. MACK. And we abandon the use of the system that was used in establishing and authorizing projects on the Tennessee Valley and Columbia River.

Mr. TRIMBLE. It wouldn't be abandoning it. It would be changing it.

Mr. MACK. It would be adopting new methods to replace the old method.

One of the interesting statements made from the Comptroller General's statement relates to the Southeast power. It says of the 11 completed dams the total cost is $556,500,000, of which power benefits were

76 percent under the cost estimating methods now in use, and that that represented a power cost of $411,400,000.

Under this bill, according to the Comptroller General, this new method of assessing costs, the power would be assessed not $411,400,000, but $290 million, or a decrease of 120-some-odd-million dollars. It would benefit power to a great extent.

Mr. TRIMBLE. The purpose of this legislation is to make each element carry its own load.

Mr. MACK. If there were five dams on the river and four had a very high benefit-to-cost ratio, and one dam did not have a benefit-cost ratio that was attractive, that dam could be authorized, and the engineers or surveying agency would be required to recommend its adoption, in spite of the fact that the benefit-cost ratio of that one dam was very low. Good dams would carry the poor dams, is that correct?

Mr. TRIMBLE. That is right, within reason of course.

Mr. MACK. They would be required to recommend that?

Mr. TRIMBLE. Not in this bill.

Mr. MACK. It says "shall."

Mr. TRIMBLE. They would be required to use every element—primary, secondary, and intangible.

Mr. MACK. The bill says they shall recommend the dam if the benefit-cost ratio of all the projects involved is satisfactory.

Mr. TRIMBLE. Within reason.

Mr. MACK. There is no other thing to be taken into consideration but the benefit-cost ratio according to the Comptroller General's statement on the bill as I read it.

Mr. TRIMBLE. He and I don't see it alike.

Mr. SMITH. Will the gentleman yield?

Mr. MACK. Yes.

Mr. SMITH. Some of the recent changes in computing benefits in regard to multiple-purpose projects—this tax-foregone principle—were not used in computing the benefits in the Columbia Valley or Tennessee.

Mr. MACK. That is correct.

Mr. SMITH. The idea that this was a complete change in the program, fomenting perhaps some of the greatest confusion that exists today from May 1947, wouldn't by any means work any hardship or unfairness on existing projects.

Mr. MACK. I am entirely in accord with the viewpoint that Congress should set the criteria for the evaluation of the benefits and costs and not an executive agency.

Mr. SMITH. I think that one of the obvious reasons for some legislation in this field is administrative resumption of what should be legislative authority.

Mr. MACK. I don't disagree with the gentleman on that.

Mr. DAVIS. Are there any further questions, Mr. Smith?

Mr. SMITH. No, sir.

Mr. DAVIS. Mr. Baldwin?

Mr. BALDWIN. Just one question, Mr. Chairman.

If I understand Mr. Mack correctly, his conclusion was that this bill would require, be mandatory, that any project be recommended even if it had an unfavorable benefit-cost ratio if the combination of that plus the other projects on the river would add up to a favorable benefit-cost ratio. I want to get this clear in my own mind.

I read on page 5, subsection C, at the bottom of the page, line 22—

When a project or unit is recommended pursuant to subsection B any unit, facility, or feature whose cost will exceed the benefits to be derived therefrom may be included in such recommendations if the inclusion of such unit, feature, or facility will not reduce the total benefits below the total cost of the project or unit.

I would like to get clear in my own mind, Judge, what your understanding of the specific provision of this bill is. Mr. Mack mentioned that there would be a mandatory requirement that a single dam which had an unfavorable benefit-cost ratio would be included if the others added together would make it favorable. But this subsection C seems to put it on a permissive basis.

Would you care to elaborate on this?

Mr. TRIMBLE. This bill has for its intent the development of the whole river or the project. Like the White River, whose primary purpose is flood control.

Then, of course, you could say primary or incidental is power. Under this new formula I could name three projects that are not feasible. If you use the old formula they are feasible.

The object of the bill is that if in the development of the project it lacks a small amount under the primary of being feasible, then they can take the secondary and intangible benefits. In other words, get away from this idea where you must accept the benefit-cost ratio on the primaries alone.

Mr. BALDWIN. You say they must use it. Who would make the decision as to whether they would or would not use it?

Mr. TRIMBLE. The affected agencies.

Mr. BALDWIN. In other words, if this were a Corps of Engineers project primarily, would you say that it would be up to the Chief of Engineers to determine in that case whether or not he would recommend to the Congress whether we proceed with that particular dam that has not a favorable benefit-cost ratio?

Mr. TRIMBLE. That is right. They are constructed to take into consideration every feature of this project and to recommend to the Congress.

Mr. MACK. Will the gentleman yield?

Mr. BALDWIN. Yes.

Mr. MACK. On page 5, beginning at line 15, it reads:

The policy is hereby established that when the total benefits, tangible and intangible, primary and secondary, are determined to exceed the total cost of unit or project, a favorable recommendation for authorization shall be made by the agency making the study and shall report its findings to the Congress.

During the hearings in 1958 before the Interior and Insular Affairs Committee General Persons, appearing before the committee, testified against this provision. He said there may be overriding reasons why the project should not be authorized, but that the engineer shall report it favorable under this legislation because of this provision on page 5, despite overriding features which might cause them to recommend against it. That was General Persons' testimony.

Mr. TRIMBLE. We are saying to those agencies that they set up everything in it. They must set up everything that is accountable in this bill, primary, secondary, and intangible, and certify to the Congress, whether it is feasible or unfeasible.

Mr. MACK. As I read this language here, the report shall be favorable to the project if the benefits exceed the cost. Then the Congress can do as it wishes concerning the project.

Mr. BALDWIN. As I understand the effect of this language, beginning on line 17, the word "shall" means we are putting an absolute compulsion on the Corps of Engineers. We don't allow them to give us any free recommendation whatsoever. We are telling them as long as you have to set a mechanical figure for the benefit-to-cost ratio, and you get more than one to one, no matter what you feel may be the condition in that project you have got to recommend it to us. Is that what this bill does?

Mr. TRIMBLE. They have to report favorably to the Congress that it is a feasible project.

Mr. BALDWIN. Let me ask you this question: Inasmuch as we, who are on this committee, are not a group of specialists, and not a group of skilled engineers, do you feel that it is actually to our best interests to bind absolutely our technically skilled people from giving us a free recommendation, recognizing the fact we are going to make the final decision?

Do you think it is advisable for us to bar their skill, their knowledge, which we have to get through the Corps of Engineers, bar them from giving us a free recommendation?

Mr. TRIMBLE. This bill sets up or purports to set up the criteria to guide the affected agencies. If a project meets the requirements set up in this legislation then they can't arbitrarily refuse to recommend it.

Mr. BALDWIN. I can understand possibly broadening the basis upon which the benefit-to-cost ratio is computed. I felt myself at times that some of these projects didn't have proper benefits allocated to them. But it appalls me to think that the people that we have to rely upon for technical skill, the Army Engineers, would be completely barred by an act we passed from making available to us their skills, by preventing them from making any recommendation which they feel should be made to us.

That aspect just appalls me.

Mr. TRIMBLE. If they find that it doesn't measure up, they don't have to recommend it.

Mr. BALDWIN. This language on line 19 says they shall recommend it, no matter what their feelings are as to other aspects.

Mr. TRIMBLE. If they find it meets the criteria set up in the legislation, they can't just arbitrarily set it aside. It is up to us to decide.

Mr. SMITH. Will the gentleman yield?

Mr. SCHWENGEL. This also forces them to bypass any experience the Engineers may have had in this type of work, and this also would apply to any other Department of Government. Like the Interior Department which has a great deal of interest and experience in many parts of the United States.

It might force them to ignore their knowledge, their know-how, technical studies, and so forth. Is that right?

Mr. TRIMBLE. No, it doesn't force them to deny their own knowledge on a project.

Mr. SMITH. This bill, this provision, requires that they recommend a project in that sense. What are these other things we are talking about? There is nothing to prevent the Engineers from submitting to the Congress any other information about defects in the project.

They could say, of course, that the benefit-to-cost ratio is such and such, and as such we are required to recommend it. But there is nothing to prevent them from pointing out any other defects in the project that will prevent them from recommending it.

Mr. Mack referred to General Persons' testimony. Did he tell what other kind of compelling reasons there could be?

Mr. MACK. Will the gentleman yield?

Mr. SMITH. If I can bring that up, I would like to point out that if there is any other reason that would make the Congress consider more carefully whether the project should be authorized or not, certainly the Engineers could present it there. Furthermore, I don't think this business about requiring a favorable report matters.

Certainly in fulfilling their obligation they could tell us about other things wrong with the project. They have done it in the past and there is nothing that says they can't do it here.

Mr. MACK. I can tell the gentleman from Mississippi, in one of the cases cited by General Persons, General Persons said the word "shall" will tie the hands of the Army Engineers and compel them to give a favorable report although they realize a project is not a good one.

There may be a community where all local interests oppose the project, or where the local interests are not in financial position to or will not supply whatever is required of the local interests, yet knowing the fact that the project can never be accomplished, the Engineers must nevertheless come before the Congress and recommend the carrying out of that project.

He objected to this word "shall" because it ties the hands of the Army Engineers.

Mr. SMITH. There is nothing to prevent them from saying that in their report.

Mr. SCHERER. Will the gentleman yield?

Mr. BALDWIN. I yield to Mr. Scherer.

Mr. SCHERER. I believe the objections of the gentlemen from California and Washington are well taken. Couldn't we meet this by changing the language, and merely state the Engineers shall not make an adverse report merely because one of the units in the group does not meet the benefits-to-cost ratio criteria? Wouldn't that do it?

Mr. DOOLEY. Would the gentleman yield? That will disturb the whole philosophy of the bill as I see it. Under the bill isn't it true that a unit can be included in the project, even if the benefits exceed the cost as a whole?

Mr. SCHERER. We admit that. To meet the objections of these gentlemen, and to carry out the intent of the bill we could reword those few sentences by saying, "The Engineers shall not make an adverse report merely because one of the units in the group does not meet the benefit-cost criteria."

Mr. BALDWIN. I will yield my time back to the Chairman.

Mr. DAVIS. Are there any questions on this side?

Mr. Edmondson?

Mr. EDMONDSON. I want to compliment the gentleman from Arkansas on the fight which he has led for this bill and for this concept

in the House for many years. I think he has brought to us a subject that is certainly deserving of our careful consideration.

I appreciate his leadership in the field.

Mr. TRIMBLE. I thank the gentleman from Oklahoma. May I say in response to the gentleman from California, and the gentleman from Washington, and the gentleman from Ohio: Of course, the purport of this bill, what was in my mind and heart, was to get a little commonsense into this thing. I cannot conceive of the Corps of Engineers, or the Department of the Interior, concluding that they must recommend a project to us when the fund that it uses is only 30 percent feasible.

But if it came up to 90 percent feasibility, and everything else was favorable, including the intangible benefits, something we can't put in terms of dollars and cents, will add value to the whole general project, it is the intent of this legislation to say to them that Congress wants those intangibles to be part of the evaluation of this project.

That is roughly the purport of this legislation.

Mr. SCHERER. Judge, the amended language that I suggested, hurriedly written down here, would that meet with your approval?

Mr. TRIMBLE. I wouldn't want to render judgment at this moment. I would want to check into it. The only thing that I have in mind is to bring responsibility to the Congress and get to work developing our water resources, yet get power coming out of these projects at a price where it can be sold.

Any language, any language that will get these projects built, to get the power out of there at reasonable rates so that the people can use it, is the purpose of this legislation.

Mr. DAVIS. Mr. Cramer?

Mr. CRAMER. I have a couple of questions.

Isn't it true that the issues involved here with regard to many of these questions, such as incremental costs, taxes forgone, many of these issues, are similar issues to those that were raised on the omnibus rivers and harbors bill in the 85th session of Congress?

Mr. TRIMBLE. Yes, that is true. The issues here are the same.

Mr. CRAMER. There are very serious considerations and problems involving what is the proper local participation in these projects, what is the proper Federal responsibility in these projects; isn't that the basic question involved?

Mr. TRIMBLE. Everything relating to water projects is involved. My bill sets out a criteria which I think if followed will bring it back to the Congress and to the people.

Mr. CRAMER. At the outset an establishment of policy with regard to these criteria by Congress I believe is a sound approach. The question to resolve is what should the policy be. For instance, on this question of incremental cost, which increases the Federal nonreimbursable cost of a given project, of course when the bill was up previously that method of determining cost sharing was disapproved by the Corps of Engineers and the Department of the Interior and the Federal Power Commission in determining, so far as they were concerned, that it resulted in an unreasonable Federal nonpower cost in the project. That issue will be involved in this bill, will it not?

Mr. TRIMBLE. Yes, sir.

Mr. CRAMER. Also the question of using 15 years, for instance, as a period for determining the interest rate on power investment, the previous 15 years of issuing Federal obligations is a rather extended period; is it not? It would obviously result in lower interests than exist today.

Mr. TRIMBLE. That would depend on what happened. Not right today. I don't know what the future holds.

Mr. CRAMER. The first overall effect of this bill if enacted would be that there would be substantially greater nonreimbursable Federal costs involved in these projects. Secondly, it would make it far more difficult, for instance, for private enterprise to compete with or to participate as a partner in any of these power projects under the new formula for cost-benefit ratio.

Mr. TRIMBLE. I don't see why it would preclude private enterprise from getting permission from the Federal Power Commission.

Mr. CRAMER. They could use a different method of allocating total cost of the project to the cost of the power project in public power projects as compared to partnership projects and therefore the higher cost of the power project might result for private enterprise and there would be less interest in private enterprise coming in and developing the project. Wouldn't that be the result?

Mr. TRIMBLE. I wouldn't say that would be the result. It would be one result. One reason why the Government is in the dam-building business is because private enterprise cannot build them.

Mr. CRAMER. I grant there are certain circumstances where the Federal Government is the only agency that economically can build the power phases of the project. But the result of the bill that you are proposing, as I see, could be to increase the number of projects in which private enterprise could not feasibly participate, and decrease the number in which private enterprise would be participating, therefore automatically increasing the number of projects that the Federal Government would have to participate in.

Mr. TRIMBLE. I don't agree with the gentleman's viewpoint.

Mr. CRAMER. That could be the result of developing the incremental method for public projects; could it not?

Mr. TRIMBLE. I don't think so.

Mr. CRAMER. I suggest, Mr. Chairman, that those are some of the very basic and serious problems that I see involved in the legislation.

Mr. DAVIS. Are there any other questions from any member of the committee?

Mr. Mumma?

Mr. MUMMA. Judge, as you know, I am a new member of this committee. Several points came to me as you talked. One was, You said just recently that you wanted to put a little commonsense in the approach.

The point that hit me most was your willingness to pay the going rate of interest. You also mentioned the cooperatives, which would be the REA, as being much interested. I hope that means a change of heart or position by the REA, that they are willing, on any future loans, to pay the going rate of interest and not spread the losses among the taxpayers who do not have cooperatives.

I hope that that is a point that they are going to take.

Mr. TRIMBLE. I can't speak for the cooperatives, of course.

Mr. MUMMA. I thought you were, Judge.

Mr. TRIMBLE. The cooperatives have less than three users to the mile on their lines, and to force them to pay the regular rate——

Mr. MUMMA. Anybody else who would build it would have to pay the regular rate. All these agencies now you admit, in developing these power dams, you are willing to pay the going rate.

Mr. TRIMBLE. The other agencies hadn't built these lines.

Mr. MUMMA. I mean private power.

Mr. TRIMBLE. They hadn't built the lines.

Mr. MUMMA. I think another point which makes the cost relatively cheap is the extension of repayment of these loans 100 years. That is what we are going through now, on FHA. They are extending the time of the repayment of the mortgage. So a man taking a 30-year or 40-year mortgage cannot pay up within his lifetime. Some of the net features of this may not last a hundred years, either.

If you make the interest or repayment of principal divided into 50 years at most, you would have a higher cost for your power.

Mr. TRIMBLE. I can only give an example. For instance, at home I live in the country. We have a cooperative that serves about 11,000 connections—meters. At present, there are more than 2,500 of those meters idle. Nearly a fifth of the people served have moved away.

Mr. MUMMA. Private power has the same interest. I have a couple of meters. We pay the minimum on them every month and we haven't used current for a couple of years, but we may need it some night or morning.

Mr. TRIMBLE. That is right.

Mr. MUMMA. That is part of the risk. Company power may be higher. They may have to figure that.

Mr. TRIMBLE. Of course your area is more congested. There are more users to the mile. In our area we have less than three.

Mr. MUMMA. We have 11,000 distributed over a good many customers.

Mr. TRIMBLE. It is over seven counties.

Mr. MUMMA. Those are my comments on the bill, that the time is too long. I am glad to see the interest rate made realistic, and I hope the REA does the same on theirs, and are willing to pay the same when they borrow money next year or the year after, to pay the going rate. It is increasingly hard for Uncle Sam.

Thank you.

Mr. DAVIS. Are there any other questions?

(No response.)

Mr. DAVIS. Thank you very much, Judge. We are glad to have you back before this committee.

Mr. DAVIS. Gentlemen, I would like to get your ideas about this matter. We expect to have a very thorough hearing on this bill. The Chair has been advised that so many from faraway places would be present to testify, and the room is full. Of course, this committee has always heard everybody who wants to be heard. My own feeling is that as tomorrow we do not have a session, we could very well meet tomorrow afternoon. There have been some commitments made for today, but I will do anything you want to do. I wonder if we couldn't start promptly at 10 o'clock tomorrow and go through tomorrow afternoon so that these out-of-town witnesses may return home without an undue delay. Then, of course, I can see now that we can't dispose of this matter tomorrow, Mr. Mack, because we have the Chief of En-

gineers, Interior, and other Members of Congress, and then we may have the Comptroller General's Office represented personally rather than by letter, and some others.

Mr. SCHERER. Do I understand the various agencies of the Federal Government that might be affected by this bill have been invited to testify?

Mr. DAVIS. You were not present when the announcement was made earlier. The Chief of Engineers will be here tomorrow, and Interior; but the Budget Bureau and the Comptroller General prefer not to come up personally because they had sent their views by letter to the committee.

However, if, in the conduct of the hearings, it is desired that they be here personally, of course we will accommodate the will of the committee and we will telephone them and set a time, and there will be no rush about these hearings.

Mr. SCHERER. Has the chairman instructed the staff to furnish the committee copies of those letters?

Mr. DAVIS. We will do that.

Mr. SMITH. Mr. Chairman, why couldn't we start now and ask these Members of Congress to defer and hear the other witnesses?

Mr. CRAMER. Mr. Chairman, on the same subject we were discussing, as I read the criteria that is set up in determining benefits, on page 4 of the bill, the new criteria to be considered in determining benefits, I call to your attention, because there would be additional agencies involved, as I see it, you have domestic and municipal agencies, you have fish and wildlife, which is Interior; you have water pollution, which is Health, Education, and Welfare; you have watershed management, of course; and then you have salinity control, which is the saline water, Dr. Miller; and you have agriculture, of course. I just asked the chairman if he has considered the fact that this bill is sufficiently broad that there will be new agencies involved that should be heard which had not previously been involved, as I read the bill.

Mr. DAVIS. I think we can hear them first and leave plenty of time.

Mr. MACK. Is it your intention to meet this afternoon?

Mr. DAVIS. My thought was not this afternoon but tomorrow afternoon. If you want to meet this afternoon, I will certainly be here. Some commitments had been made by some for today. Tomorrow, with no session, we could go right on through.

A suggestion has been made by Mr. Smith that if the Members of Congress who are here, who want to testify in support of this bill, if they would agree, we could go ahead and hear these out-of-town witnesses. I doubt if we could dispose of all of them in 50 minutes. We have 16 here representing the electric cooperative associations.

Mr. EDMONDSON. Mr. Chairman, I have a prepared statement I would be glad to file and reserve any further remarks and questions until later, if that is agreeable with the committee.

I think my colleagues could probably give theirs in a very few minutes, and if questioning on them could be deferred, we could get on to the outside witnesses in about 5 minutes.

Mr. DAVIS. Those we do not hear today we will hear tomorrow.

Mr. ALBERT. Mr. Chairman, if it is permissible, I would like to submit a statement in favor of this legislation for the record. The cooperatives in my district are vitally interested in it. Their future

is vitally connected with it, particularly that portion of it which has to do with the incremental cost method.

I ask unanimous consent that my statement be placed in the record, and if it is necessary to examine into the matter further, as far as my own area is concerned, I would be glad to appear at a later date.

Mr. DAVIS. Without objection, we will receive the statement made by our colleague, Mr. Albert, from Oklahoma. Should you desire to question him at a later date he will be available. Is there any objection?

STATEMENT OF HON. CARL ALBERT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. ALBERT. Like the distinguished author of H.R. 8, the gentleman from Arkansas, Mr. Trimble, I am a resident of the Southwest where the development of water resources is of prime importance.

While there are many worthwhile features of this bill, I am especially interested in those items which have a direct effect upon the rural electrification cooperatives of our area—the allocating of costs of multipurpose dams on an incremental basis and basing the costs on the useful life of the projects rather than on the unrealistic period of 50 years.

These two problems are of particular significance to our area. Of the 26 rural electrification cooperatives in Oklahoma, 19 of them depend for a good share of their wholesale power on the Southwestern Power Administration. This is the distributor of power from the multipurpose dams constructed by the U.S. Army Engineers. These include the cooperatives in my congressional district.

When the multipurpose dams were first completed and the power rate for the REA cooperatives was set, the cooperatives were of the opinion that the rate was permanent. They did their planning accordingly. They obtained loans from the Rural Electrification Administration based on this understanding. They extended the benefits of electricity to practically all the farming communities in their areas on this premise. The plans under which they drew the blueprints for their lines were predicated on what their power costs would be. All of the cooperatives' calculations in costs to their users were made on the basis of this understanding.

It can readily be seen what the 27 percent increase in power costs to REA cooperatives resulting from the inauguration of the provisions of Budget Bureau Circular A–47 does to the cooperatives and to their programs.

The president of one cooperative in Oklahoma says the increase may mean the difference between the cooperatives operating in the black and in the red.

As I see it, the provisions of Budget Bureau Circular A–47 are bad for two reasons: First, they change the rules in the middle of the stream; and second, they require power projects to pay more than the incremental costs of making provision for them. This has the effect of taking away what has been historically the responsibility of the Federal Government—the payment of the entire cost of flood control.

I agree with other supporters of this legislation that we should no longer have project justifications and cost allocation procedures so restrictive that water resource development is brought to a standstill.

I feel that it is most important that the policies and criteria for making cost allocations be spelled out in a bill as they are in H.R. 8. I think this is sound legislation. I urge that this bill be favorably reported by this distinguished committee.

(The following was furnished for insertion:)

KIAMICHI ELECTRIC COOPERATIVE, INC.,
Wilburton, Okla., July 14, 1959.

HON. CARL ALBERT,
U.S. Congress,
House of Representatives, Washington, D.C.

DEAR CARL: In behalf of the board of directors and the membership of this cooperative, I would like to express our sincerest appreciation to you for taking time out to appear before the Public Works Committee on July 9 in support of the Trimble bill. Since you offered to reappear before the committee to provide them with information regarding the cooperatives in your area, I shall attempt to give you some information about this cooperative that might be of value to you.

The first 6 months of 1959 we served an average of 5,305 consumers with an average of 2,246 miles of line with a density of 2.36 members per mile: with a plant investment of $4,450,066.33, for an average investment of $855.51 per consumer. This is a relatively high investment in comparison with the surrounding cooperatives and utilities. This has been due to the loss of consumers which started in about the year of 1954, and reached its peak in about December of 1957. At that time we had 1,935 idle services, and we have retired an average of 100 per year. We have now at the present time 1,700 idle services.

The loss of consumers has taxed a heavy burden on the remaining consumers; fortunately, we have made a steady progress since 1952. We operated with a deficit of $98,141.71 in that year. It was necessary to increase our rates in January of 1953 to overcome this burden.

We continued to progress up through the year of 1956, at which time we made a profit of $5,191.51. Our wholesale power rates were increased in the month of August 1957, and due to this increase we dropped back to an operating defict of $3,032.76. We needed additional loan funds from REA in the early part of 1958, and to obtain these funds it was necessary to again increase the rates to our consumers. This was the second time we had an increase in rates within a 5-year period.

For the first 6 months of this year we have purchased 4,713,960 kilowatts at a total cost of $35,382.04 or at an average cost of 7.5 mills per kilowatt. The average rate per kilowatt-hour, on the old rate of 5.5 mills, would have amounted to $25,926.78 or a decrease of $9,455.26. This does not include the peak months of the year and according to the 1958 report we sold 15 percent more electricity in the last 6 months than we did in the first 6 months.

Using this as a guide to estimate the use for 1959, we will purchase 10,135,014 kilowatts at an average cost of 7.5 mills per kilowatt or a total cost of $76,012.61. The average rate 5.5 mills on the old rate would have amounted to $55,742.58 or a decrease of $20,270.03. We expect to reach 100 percent of debt service this year which will be the first time in the history of the cooperative, therefore, the decrease in expenses could be passed on to the consumers within a short period of time.

One member of the Public Works Committee appeared to be opposed to the Trimble bill because of the extra burden added to the taxpayer. We can see no reason why the extra cost should be paid by the electric consumers in our area, as we receive no benefit from the dams other than the benefit from electricity. The dams were initially built for flood control and recreation, and in no case does this flood control benefit this immediate area. I am sure that the preservation of the soil will eventually benefit all the people in helping supply the foods for our Nation.

A survey was made jointly by the Government and Oklahoma State University of the economical condition of Latimer County in 1955. It was learned that the average income per family in this county was far below the Nation's average. From this survey the Government designated this as a pilot county for rural development and employed two associate county agents and one associate home demonstration agent. These agents were to assist in helping the farmer in increasing their income. They were employed about the same month we started

paying our increase in wholesale power, which resulted in a rate raise to our consumers in 1958. The taxpayers were assisting the farmer in trying to increase his income and at the same time has to increase his electric power rates, which is a vital part of the farm economy.

We hope you are successful in getting the Trimble bill passed and made into law, as we believe this would result in a lower wholesale power rate that we hope to pass on to our consumers.

If any part of this information contained in this letter is of any value in support to the Trimble bill, I would appreciate you passing it along to Senator Kerr, Senator Monroney, and any other interested person.

Respectfully yours,

OTHA BEARD, *Manager.*

Mr. SCHERER. May I refer to the other agencies mentioned by the gentleman from Florida, Mr. Cramer. Perhaps you would instruct the staff to obtain reports from the other agencies involved, so that we would have them and there would not be any delay, so we might consider the effect it might have on those agencies.

Mr. DAVIS. Mr. Brennan, will you ask the clerk to send a copy of this bill to everybody you can think of, in connection with line 21, on page 4, any department that you can possibly imagine that would be affected, and ask them to comment on the bill.

Mr. EDMONDSON. Mr. Chairman, may I have unanimous consent to file my statement so that I can make way for the REA leaders from my district to be heard in support of the bill.

Mr. DAVIS. Without objection. Mr. Albert's statement has been received. Also, that of our colleague from Oklahoma, Mr. Edmondson; his statement will be made a part of the record.

STATEMENT OF HON. ED EDMONDSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. Chairman, the conservation and development of our natural resources is without question one of the most vitally urgent problems in our Nation today. This is true not only in terms of economic progress but also in terms of national security.

As this committee is keenly aware, water development plays a key role, a major role, in the conservation and development of our country's resources. It is in this area that we on this committee, and Congress as a whole, have had some of our most serious differences with the administration.

For example, the "no new starts" edict of the administration has been a continual thorn in the side of water development—not only to this committee but to other committees and individual Members of the Congress. In addition, the policies and criteria utilized by the administration under Bureau of the Budget Circular A–47 have been most restrictive and have resulted in very adverse effects to public power users in many project areas, including the Southwestern Power Administration region.

H.R. 8, which is sponsored by my esteemed colleague, Congressman Jim Trimble of Arkansas, is a bill designed to cope with these problems, and generally to establish more progressive policy and procedure for the development of our water resources. Mr. Chairman, it is time that Congress itself establish forward-moving policy and procedure in this field rather than permitting the Bureau of the Budget to establish policy and procedure in the absence of congressional action.

Accordingly, this hearing on the Trimble bill is a most important and significant step, for one of the greatest needs of our day is to obtain some major policy changes, written into the law, if we are going to continue the dynamic development of America's water resources. It is time that we express in positive terms the intent of Congress to develop fully our great national potential in water development.

It is time that we implement this by providing the legislative tools to do the job—in terms of enlightened policy and procedure in connection with economic justification, in connection with cost allocations, in connection with terms of repayment (particularly with respect to power and its preference users), and in terms of basinwide evaluations and planning that put into true focus the great undertakings still before us.

There is not a river basin in the country, nor an American in this country, who will not benefit in terms of a better national stewardship of our resources if Congress will take the forward step of establishing new and liberalized standards and criteria in this field. These hearings on the Trimble bill provide us with a golden opportunity to write a great new chapter in the future development of this Nation's resources and its strength, and I urge the committee to go forward accordingly.

Mr. MACK. I agree that the committee should seek to obtain the fullest development and utilization of the water in our streams. This is not in controversy. I don't think it is in controversy that the Congress, rather than the executive agency of the Government, should establish the criteria on which costs are allocated.

Mr. DAVIS. I see our colleague, Mr. Toby Morris from Oklahoma. Do you desire to make the same request as Mr. Albert and Mr. Edmondson?

Mr. MORRIS. Yes, sir, Mr. Chairman.

Thank you very much, Mr. Chairman and members of the committee. I do desire to make the same request. I have a very short statement. In view of the time limit here I would ask your permission to file this written statement, and then, at your convenience, if you care to question me about this statement, I shall be happy to appear and make such further statements or answer questions to the best of my ability that might be required by you or any member of the committee.

I appreciate very much the opportunity to submit this. I am for the bill. I think it is good and it will be wholesome legislation if you pass it.

Mr. DAVIS. Without objection it is so ordered.

STATEMENT OF HON. TOBY MORRIS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA

Mr. MORRIS. Mr. Chairman and members of the committee, I want you to know that I certainly appreciate the opportunity you have afforded me to appear before your committee in behalf of H.R. 8, generally known as the Trimble bill.

I wish to say first that I'm sure that you will agree with me that any bill introduced by our distinguished colleague from Arkansas, Mr. James W. Trimble, should be given most careful and earnest consid-

eration by the committee to which it is assigned and particularly one that he has studied and worked on so long and diligently as he has this one; for the reason that we all know him as a most able, conscientious and experienced Member of Congress.

I know my statement should be brief, particularly in view of the fact that as I understand it, a number of witnesses desire to be heard on this bill. I therefore will attempt to emphasize just a few points.

1. It seems to me to be wise and fundamental and in the best interests of true economy, practicality, commonsense, and the general welfare of our entire country that Congress should determine and establish proper allocations of costs as to each project it approves for the reasons that I feel it the prerogative and duty of Congress to do so and in addition thereto no changes in the formula and program of allocation of costs and repayment should be made, it seems to me, without giving those affected fair and reasonable hearings. I particularly wish to point out that contracts for the sale of power generated by Government multipurpose dams, and distributed, should be firm and dependable as to rates and other features for a definite period of time. This I understand is not true at present.

2. Also a fairer, more reasonable, equitable, and practical payout period would in my judgment be established by Congress as to those projects justifying a longer payout period.

3. In addition thereto the section of the country involved taking into consideration the average annual water runoff and the various benefits such as primary, secondary, tangible and intangible, relative to such section would be more carefully and equitably considered, as would the costs of the project including associated, secondary and incremental costs.

As I read and understand the Trimble bill, these features I have mentioned are in it, and are of great importance to those directly affected and to our whole people. I hope this committee in its wisdom will feel it proper to favorably report this bill.

Thank you, Mr. Chairman and members of the committee.

Mr. BALDWIN. I notice another visiting Member, Mr. Gathings.

Mr. GATHINGS. Mr. Chairman, I don't have a prepared statement. I am interested and would like to join my colleagues in support of the bill and ask unanimous consent for permission to file a statement.

Mr. DAVIS. Without objection, it is so ordered.

Gentlemen, we will proceed as quickly as possible. Those of you we do not hear today we will hear sometime tomorrow afternoon.

Should I call Mr. Sidney McMath first, chairman of the National Water Resources Committee, and National Rural Electric Cooperative Association, or must I ask for Mr. Robinson, Jr., the staff engineer?

Mr. MCMATH. I am Sidney McMath. On behalf of these witnesses who have come in here from various sections of the country to testify, we wish to express our appreciation to this committee for your courtesy in giving us a chance to be heard. We have arranged an order of witnesses we think will expedite our part of the testimony, and with the permission of the committee we would like to have them called in that order.

Our first witness would be Charles A. Robinson, who will cover the technical aspects of this legislation.

Mr. DAVIS. He is a staff engineer for the National Rural Electric Cooperative Association.

Mr. Robinson.

STATEMENT OF CHARLES A. ROBINSON, JR., STAFF ENGINEER, NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION

Mr. ROBINSON. Thank you, Mr. Chairman. I have a prepared statement which at this time I would offer for the record, and ask that I be allowed to highlight it orally.

Mr. DAVIS. I believe you testified before a congressional committee before. We would like to hear you offer the highlights of a long statement.

Please don't misunderstand me. We are not rushing anybody. We want to give you all the time necessary.

Mr. ROBINSON. Mr. Chairman, I am Charles A. Robinson, Jr. I am the staff engineer of the National Rural Electric Cooperative Association.

I would like, as the first witness, to try and bring into focus some of the factual background which we think has made necessary the introduction and enactment of the Trimble bill. What we are trying to do here is to establish law rather than change it.

The problem arises from the fact that actually, as to many of the matters covered by the bill, there is no existing law, and we are operating under a set of administrative practices only.

About 450 rural electric co-ops and several hundred municipal systems throughout the country, purchase this incidental power generated at projects authorized by this committee.

In fact 40 percent of the total power used by electric cooperatives comes from these Federal projects. We are vitally concerned, therefore, that the Federal power program go forward and grow not only with our own needs but with the needs of the rest of the country for water and power.

We seek a stable Federal power program and a growing one. What we are running into at the present time—and the situation which the Trimble bill was designed to correct—is one in which the executive branch agencies are taking unto themselves the policymaking role with respect to these projects.

It is thus, for practical purposes, the Bureau of the Budget and the Corps of Engineers, the Department of the Interior, the Federal Power Commission, and other such agencies which determine which projects will be built, when they will be built, and at what rates the water and power from them will be sold.

This policy is exercised because the executive branch agencies formulate the benefit-to-cost ratio studies, the project payout studies, the cost allocation studies, and all of the technical documents upon which this committee bases its authorization.

And therefore as to these technical aspects of any given project, the decision of this committee is predetermined by the executive branch agencies.

This situation is not good because it tends to isolate the people, through their Members of Congress, from the Federal power program—from the river basin development program. And, of immediate interest to us is the fact that it appears at least that the present policy of these agencies is to discourage the authorization and construction of multiple-purpose projects, including power, and to——

Mr. SCHERER. I didn't hear. Did you say to discourage?

Mr. ROBINSON. Yes, sir, to discourage. And to charge for the power marketed from them very, very high rates. The thing that particularly disturbs us is the fact that in some areas of the country our people have been buying power from these projects for several decades at a fixed rate, at a rate which was at least previously thought to represent sufficient funds to recover the costs of the projects.

The executive branch agencies have, however, gone back and restudied these projects after they have been in operation for many years, applied different formulas, and come out with the conclusion that the rates do not repay the cost of the project as found by the new formula; that the rates must be increased.

And in one section of the country the rates have been increased 27 percent. Moreover, there is a lack of uniformity between the agencies as to what types of criteria are used in cost allocation and in benefit-to-cost ratio studies.

For instance, the Bureau of Reclamation very frequently uses a 100-year period in determining its benefit-to-cost ratio for a particular project. With this the Bureau of the Budget disagrees and says 50 years should be the maximum.

About a year ago, a little more than a year ago, the Department of the Interior went to the Federal Power Commission and asked for approval by the Commission of rates charged the Tennessee Valley Authority for power marketed from projects on the Cumberland River. These projects in the Cumberland River were first authorized for flood control back in 1938. About 1941 they were reauthorized for power.

And the authorization report upon which the Congress authorized these projects included the incremental method of cost allocation. So after concluding contracts for the sale of power from these projects to the Tennessee Valley Authority, the Department of the Interior applied the incremental method of cost allocation and went to the Federal Power Commission and said, "We want you to approve the rate schedule which we have arranged for selling the power from these projects."

After considering the matter for some time the Commission turned down the request, refused to recommend approval, refused to issue an order approving the Department of the Interior's rate schedule, and in fact issued an order denying that approval.

These are some of the problems which the Trimble bill is designed to correct.

We know there are controversial parts of it, and we are certainly willing to accept amendments to it. But what we are trying to do is devise a comprehensive set of statutory standards which will guide these agencies and provide some focal point around which our water resource program can go forward.

The Comptroller General has on many occasions referred to the need for these statutory standards. In 1956, commenting on a predecessor bill, Senate Resolution 281, the Comptroller General said—

> To resolve the matter of reaching firm cost allocations, we believe Congress should take one of the following alternative courses of action—

and this quote appears on page 2 of my statement:

> 1. Establish policies and criteria for making cost allocations and designating specifically the agency to make the allocations. * * *

2. Establish policies and criteria for making the cost allocations and designating the Federal Power Commission to make the firm cost allocation wherever power is a purpose of the project. * * *

3. Establish policies and criteria for making the cost allocations and requiring the construction agency, the power marketing agency, and the Federal Power Commission jointly to submit appropriate reports and allocations of the costs to the Congress, or its designated committees to approve an allocation. * * *

The Comptroller General, in commenting on the bill before this committee at the present time, H.R. 8, said:

We are in full agreement with the desirability of having a national water policy set forth by legislation to guide the various agencies concerned in planning, operating, and maintaining water resources development projects. We have consistently emphasized the need for such criteria and have on many occasions included comments in audit reports to the Congress on the absence of, and the need for, prescribing such criteria by legislation. We are of the view that H.R. 8 will provide generally this criteria but we offer the following comments on the bill for your consideration.

The Comptroller General did not approve or disapprove the bill. He did say he thought it would meet the need at least for bringing some statutory standards to bear on the problem.

One of the principal controversial aspects of this bill, Mr. Chairman, I think, is the fact that it provides for the incremental method of cost allocation. Our contention for the incremental method in this bill is based on the fact that historically power has been an incidental purpose of these projects.

For this reason we do not believe it should bear a full portion of the joint cost of such projects. The first project that was ever authorized for power, under the general flood control statute was the Norfolk project. That was specifically conditioned on a statutory cost allocation method, the incremental method.

The Denison project was authorized the same way. And all of the Cumberland River projects were authorized on the incremental method, not by statute as to the Cumberland River projects, but because the Corps of Engineers report recommended the incremental method on those projects, and they were authorized on that basis.

In 1954 the Bureau of Reclamation, Department of the Interior, Corps of Engineers, and the Federal Power Commission entered into agreement, and that agreement provided that these agencies would recognize as accepable only three methods of cost allocation.

These are the separable cost-remaining benefits method, which has been so widely discussed, the alternative justifiable expenditure method, which is similar to the separable costs remaining benefits method, and the use of facilities method.

Each of these methods charges to power a very high portion of the joint cost of each project to which it is applied. We believe that in adopting this agreement these agencies have completely ignored the important fact that power may be an incidental purpose in many cases.

They have established here what amounts to almost a conclusive presumption that power is a principal purpose in all cases. They won't even examine whether or not it is principal or incidental. They simply apply these methods.

What we are trying to do in this bill is to reverse that presumption. We have no objection whatever to the application of the separable costs-remaining benefits methods to projects such as those which exist in the Northwest where power is obviously the principal purpose.

But we would simply create the presumption to guide the executive agencies that power should first be considered an incidental purpose, and if there are such facts at hand to refute that presumption, and these facts show that power is a principal purpose, then of course the separable costs-remaining benefits method should be applied.

But what we have here in this 1954 agreement is a complete reversal of what we believe was congressional policy, by administrative action. We thing that should be changed. We think the power to decide these policy matters should be in the Congress.

So as regards the incremental method of cost allocation we believe it is applicable in the Southeast, to many projects; in the Southwest, and perhaps in the Missouri River Basin. There are areas where it is not applicable. In those areas we would have no objection whatever to the use of another method.

I mention the Missouri Basin because originally there the main stem projects with which this committee is so familiar were authorized on a basis by which power was charged with about 30 percent of project cost and flood control and navigation, something like 70 percent.

That has been almost reversed. Power is now charged with 60 percent and flood control and navigation with something like 30 percent. Some irrigation has been added to that allocation.

Those are the things which disturb us. A trend toward the use of formulas which prevent project construction, which raise the costs, and which lend instability to the whole structure.

Section 7(1) of H.R. 8 is an attempt to recognize, in the calculation of benefits attributable to a particular project, the value of future economic development in the area, and to require the executive branch agency to assume in calculating such benefits that comprehensive basin development will proceed in an orderly manner.

There has been of recent years, we believe, a reluctance to accept initial appropriations for multiple-purpose river basin development because of the fact that the initial projects would not result in the full development of the river, and that, for instance in the case of the Arkansas River development, which is basically, a navigation project, a reluctance on the part of the executive branch to accept appropriations because they claim that the full benefits of the project would not be realized for many years.

You can't run a boat up and down the river until the navigation channel is complete. But we see no reason why this fact should reflect in the benefit-to-cost ratios on the initial projects. They should be considered from the standpoint of ultimate development. And section 7(1) of the bill H.R. 1 is an attempt to do that.

Section 7(3) of the bill is an attempt to preclude application of the taxes forgone provision. Taxes forgone means that when the benefits of a Federal hydroelectric development are considered, they have to be considered as against the cost of power produced from an equivalent steamplant.

If you use a privately financed steamplant, the savings of the Federal hydroelectric power are obvious because you do not charge the Federal plant with either the Federal income taxes paid by the private plant, or with the cost of money to a private corporation.

But if you, however, use a Federal steamplant as your alternative, as is required by Budget Bureau Circular A–47, you then have to charge the Federal plant with the same taxes that would be paid by a

private plant and charge the Federal plant with the private cost of money.

This of course reduces the benefits that accrue to the Federal power as compared to the same power available from a private steamplant. This of course makes it appear that the Federal power is undesirable in that particular case.

We think it is an unrealistic approach because in no case would a Federal plant be charged Federal income taxes, nor would it pay the private cost of money. Moreover, if you assume that the logic behind that requirement is that some taxes will be lost, it also fails because history shows that where a Federal multiple-purpose project is developed, the total contribution of the area to the economy is stimulated, not decreased.

So we think that the taxes foregone theory should be abandoned, and section 7(3) of the bill attempts to do that. During hearings by this very committee on the 1957 rivers and harbors bill Senator Kerr appeared as a witness and asked the Chief of Engineers:

How many existing projects, of those that are built, were built under the taxes foregone situation?

General Itschner replied, and this is a quote:

I do not know of any hydroelectric projects that are authorized today that have the provisions in it.

Which is a pretty good indication I think that it is extremely difficult to show feasibility for hydroelectric power with that taxes foregone theory in operation. That quote appears at page 8 of my statement.

Section 8(a) of the bill is intended to be declaratory of existing Federal policy which that portion of project of construction cost allocated to irrigation and which is beyond the ability of the irrigators to repay may be, to the extent necessary, recovered from the establishment of an appropriate rate for commercial power sales.

In the West it has been the policy for the purchasers of commercial power to subsidize the irrigators, and this bill would not change that.

Section 8(a) is an attempt to circumvent paragraph 14–A of Budget Bureau Circular A–47 which limits the multiple-purpose project repayment period to 50 years. We believe that the 50-year period is unrealistic. The language of the Flood Control Act of 1944 requires project repayment over a reasonable period of years.

It has been repeatedly testified to by experts before committees of Congress, and there is one quote, one exchange of conversation on this matter between Senator Kerr and Mr. Wright, the SPA Administrator, at page 9 of my statement.

Mr. Wright stated that in his opinion the average project life in the Southwestern Power Administration area was 150 years.

Mr. EDMONDSON. How many?

Mr. ROBINSON (reading):

I think there are some of them down there that are good for at least a thousand years. I think that we have none in the area that is not good for at least 150 years that are included in this study.

This was during the 1956 hearings by a subcommittee of the Senate Committee on Public Works. I am certain that many projects, as Congressman Edmondson said, are good for 500 years or more. The adoption by the Budget Bureau of a 50-year maximum repayment period works a hardship on those who purchase the power and water

from the projects because it makes them repay the cost of the project allocated to these features in a ridiculously short period of time.

Certainly we know that for more than 50 years the revenue will accrue to the Government. So there is no reason to establish a period of project repayment less than the period during which the revenue will accrue.

Section 8(a), as has been previously mentioned this morning, of H.R. 8, section standardize and stabilize the rate of interest applicable to these funds invested in these projects.

It would fix that interest rate at the average rate on marketable securities over the preceding 15 years. We have in section 5(a) of the bill attempted to controvert Budget Bureau Circular A–47, paragraph 14–J, and paragraph 15, which in our opinion requires the agencies studying these projects to minimize the benefits attributable to them, and maximize the costs, and thereby make the project seem unattractive.

This part of the bill would require that all benefits be taken into account.

One excellent example of the way benefits are not being taken into account developed during Senate hearings on S. 1164 in 1957, which provide that where reservoir areas are developed by the Secretary of the Army, or the Secretary of the Interior, the annual recreational benefit shall be calculated as equivalent in dollars to the number of persons which might reasonably be expected to utilize the recreational facilities of these projects during a given year, but not to exceed 15 percent of project cost.

Obviously you wouldn't want to charge a major portion of the project cost to recreation.

At that time the Corps of Engineers estimated that something like 62½ million people visited their projects each year for recreation. The Bureau of Reclamation estimated that over 8 million visited their projects.

On May 17 of this year the Sunday supplement Parade carried a 2-page center spread article on the tremendous use of recreational facilities at Federal multiple-purpose projects, yet at the present time not a dollar of project cost can be charged to recreation under the general statutes.

We think that should be changed.

Section 5(c) of the bill provides, as has been stated here this morning, for the permissive inclusion under certain circumstances of uneconomic increments. This is also, we recognize, a controversial topic. What we are saying simply here is that in a particular project, if municipal water supply shows a benefit-to-cost ratio of just less than one, for instance, it could be included. It wouldn't have to be, but it could be included in the project if the overall project ratio were not brought below one to one.

We think there are probably many circumstances under which it might be desirable to include some features in these projects that might not show a more than one to one benefit-to-cost ratio.

It is impossible for the Corps of Engineers to recommend their inclusion at the present time. We think they should have that latitude. To that extent the bill actually enlarges on administration discretion, rather than curtailing.

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In conclusion, Mr. Chairman, those who have developed and advocated passage of H.R. 8, relaize that considerable objection to it will be raised. We welcome constructive criticism and, as I indicated especially with respect to the cost allocation provisions, we will welcome amendments, provided of course they do not completely vitiate the purpose of the bill.

However, in view of the widespread acknowledgement that some law is required, some statutory guidelines are required in this field—and this acknowledgement has come from the administrative agencies themselves—we feel that the critics of the bill have the duty to come forth with alternative affirmative suggestions, not merely to say this won't do the job, but of suggesting alternative methods of getting it done.

I appreciate very much the time the committee has afforded to us this morning. We have a great many witnesses that have come from the field to tell you how the lack of stability in the Federal water resources development program is affecting our cooperatives, how the tampering with existing Federal rate schedules is hurting them financially.

Again I want to express my appreciation for the committee in hearing me out. I will be happy to try to answer any questions.

(The statement follows:)

STATEMENT OF CHARLES A. ROBINSON, JR., STAFF ENGINEER, NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION

Mr. Chairman and gentlemen of the committee, my name is Charles A. Robinson, Jr. I am the staff engineer of the National Rural Electric Cooperative Association.

Those persons and organizations which advocate enactment of H.R. 8 represent rural electric cooperatives, public power districts, and municipal electric utility systems in nearly every State of the Union which, collectively, purchase approximately 25 percent of all hydroelectric energy generated at Federal multiple-purpose flood control, navigation, and reclamation projects.

THE NEED FOR STATUTORY STANDARDS

H.R. 8 is an attempt to achieve stability and predictability of Federal water resource policy by establishing progressive statutory standards to govern multipurpose project justification and cost allocation procedures, and to place Federal water resource planning on a comprehensive basis oriented toward regional development.

The advocates of H.R. 8 have counselled with several prominent water resource development experts, and have actively solicited the suggestions and advice of other organizations interested in the development of the reimbursable features of multipurpose projects.

Some of these experts indicate approval of the legislation. Others favor it in principle, but contend that project justification and cost allocation procedures are matters for administrative discretion rather than for legislative determination.

It is our contention, however, that an urgent need exists for supervisory legislation to assure control by Congress of Federal water resource policy, and to achieve stability in its administration. For there is already an overabundance of administrative discretion which tends to encourage uneconomic practices and defeat efficiency.

Two basic problems are generally recognized by most parties interested in water resource development. First, national water supply is critical. President Eisenhower's Advisory Committee on Water Resources reported on December 22, 1955, that: "Shortages of water for domestic and agricultural use are frequent. Industry is finding it increasingly difficult to locate adequate water supplies. Lack of adequate planning threatens to impose a water scarcity which can become a limiting factor on the growth of some of our cities. At the same time, flood damage in many areas continues to be great."

Second, differences between administrative agencies charged with separate phases of Federal water resource administration must be resolved, and the effects of policy differences between successive administrations mitigated. How better can these problems be met than by the establishment of statutory standards to guide all administrative agencies?

Even the Secretary of the Interior who in 1957 transmitted to this subcommittee his disapproval of H.R. 965, a similar predecessor bill to H.R. 8, concedes the need for such legislation. He stated:

"We are in full agreement with the desirability of having a sound national water resource policy set forth for guiding the work of the various agencies in planning water resources development projects, but in our opinion, the subsequent sections of the proposed act contain a number of provisions that would not contribute to such a sound national policy and omit other provisions that would be desirable."

And on December 14, 1956, Mr. Joseph Campbell, the Comptroller General, stated in commenting on Senate Resolution 281:

"To resolve the matter of reaching firm cost allocations, we believe Congress should take one of the following alternative courses of action:

"1. Establish policies and criteria for making cost allocations and designating specifically the agency to make the allocations.

"2. Establish policies and criteria for making the cost allocations and designating the Federal Power Commission to make the firm cost allocation wherever power is a purpose of the project.

"3. Establish policies and criteria for making the cost allocations and requiring the construction agency, the power marketing agency, and the Federal Power Commission jointly to submit appropriate reports and allocations of the costs to the Congress, or its designated committees to approve an allocation.

"Under either alternative, we believe the Congress should require that the cost allocations or the report on cost allocations be made and submitted about the time the project is substantially completed and placed in operation.

"Policies and criteria used for cost allocations and related matters have not been uniform between the agencies having water resource development responsibilities. Notwithstanding the efforts in recent years of the Interagency Committee on Water Resources (and its predecessor, Federal Interagency River Basin Committee), the Presidential Advisory Committee on Water Resources Policy, and the Bureau of the Budget to formulate mutually acceptable principles and procedures, we believe that the Congress should provide the basic framework of policies and criteria. [Italic supplies.] Among the factors in which the congressional intent may be expressed are:

"(1) Benefits and costs to be considered in the benefit cost analysis for the evaluation of projects and in the allocation formula. Under this factor the Congress may want to consider the degree to which secondary benefits and indirect costs are to be included in determining the total benefits and total costs.

"(2) Costs to be included for purposes of allocation and to be repaid by beneficiaries; that is, whether interest in the Federal investment, costs of other Federal agencies applicable to the project, and similar costs not paid directly by the constructing agency are to be classified and recorded as costs of the projects.

"(3) Number of years to be used as the basis for realization of project benefits and repayment of reimbursable project costs.

"(4) Rate of interest and method of computation.

"(5) Costs applicable to other purposes to be repaid by power revenues.

"(6) The purposes to which costs are to be allocated and the criteria for allocation * * *"

As to H.R. 8 itself, the Comptroller General stated in a letter of April 8, 1959, to the chairman of this committee:

"This bill would, in effect, establish policies and provide procedures and criteria governing the determination and allocation of costs and benefits of water resources projects under Federal jurisdiction and the determination of rates to be charged for electric power produced in connection therewith. The establishment of policies and the procedures and criteria to be used in allocating costs and benefits and in determining rates to be charged for electric power in connection with water resources projects are matters of policy primarily for the determination of the Congress, and, therefore, we make no recommendation concerning the enactment of the bill.

"We are in full agreement with the desirability of having a national water policy set forth by legislation to guide the various agencies concerned in planning, operating, and maintaining water resources development projects. We

have consistently emphasized the need for such criteria and have on many occasions included comments in audit reports to the Congress on the absence of, and the need for, prescribing such criteria by legislation. We are of the view that H.R. 8 will provide generally this criteria but we offer the following comments on the bill for your consideration."

COST ALLOCATIONS

Section 6(3) of H.R. 8 would apply to multiple-purpose projects, which include hydroelectric features, the incremental method of cost allocation, with the principal purpose of the project considered basic. This provision is grounded on the fact that only in isolated instances does the Federal Government construct hydroelectric plants as such. Projects under the jurisdiction of the Corps of Engineers are usually authorized and constructed for flood control or navigation, or a combination of these purposes. Hydroelectric power is included as an incidental feature.

The same principle applies to most Bureau of Reclamation projects. And although power features were included in reclamation projects at an earlier date than they were in flood control and navigation projects, power has been considered as a benefit incidental to the principal purpose of providing agricultural, municipal and industrial water supply for the arid areas. Power generated at reclamation projects is first used as needed to operate the irrigation water pumps. And, a substantial part of the revenue derived from the sale of the remaining power is used to repay the cost of project irrigation features.

But the very fact that the electric power features are lucrative, tends to induce a false belief that power is a principal project purpose. Actually, it is not.

The administrative agencies responsible for operation of the Federal water resource development program have themselves misconstructed the intent of Congress. They have, gradually, abandoned the original concept of power as incidental, and now think of it as a principal project dilemma.

The cost allocation problem particularly plagues the multiple purpose dams on the main stem of the Missouri River and in the White, Red, and Arkansas Rivers Basins of the Southwest.

In 1953, the Bureau of Reclamation was allocating 31 percent of the cost of the main stem Missouri River plants to hydroelectric power and 69 percent to flood control and navigation, upon the theory that power was an incidental purpose of these projects which were originally designed to afford a 9-foot free flowing navigable waterway, conservation of water for upstream irrigation features and flood protection to the lower Missouri and Mississippi Valleys.

However, since 1953, the Bureau has revised these cost allocations, and now allocates 63 percent to power and 22 percent to flood control and navigation.

The Southwestern Power Administration originally allocated approximately 30 percent of project costs to hydroelectric power. By contrast, the Department of the Interior now allocates approximately 52 percent of project cost to power. The authorization for the first two projects in the Southwest, Norfolk, and Denison, expressly ordered the incremental method of cost allocation as contained in section 6(3) of H.R. 8. For these two projects the present allocation to power is 32 and 47 percent respectively, and it is interesting to note that were the now prevalent separable costs-remaining benefits method applied to these two projects, hydroelectric power would bear 43 and 66 percent of construction costs respectively.

At this point, Mr. Chairman, I would like to call the attention of the committee to an administrative agreement between the Departments of the Interior and Army and the Federal Power Commission dated March 12, 1954, entitled "Cost Allocation" which is attached hereto as exhibit A. This agreement stipulates three methods of cost allocation as acceptable by the signatory agencies. They are (1) separable costs-remaining benefits, (2) alternative justifiable expenditure, and (3) use of facilities.

Bearing in mind these three methods that have been agreed upon as acceptable by the administrative agencies, let me also call your attention to table 1, attached hereto as exhibit B. Table 1 contains a list of 22 various Corps of Engineers and Bureau of Reclamation multiple-purpose projects. It also contains for each project a tabulation of the percentage of project construction cost that would be allocated to hydroelectric power under six separate methods of cost allocation, each of which is being or has been used by one or more agencies of the Government at some time. The last line of table 1 shows the average allocations calculated by applying the six different methods of cost

allocation to all of the projects. Note that the separable costs-remaining benefits method and the alternative justifiable expenditure method each result in an overall figure 61.3 percent of construction cost allocated to power, and that the use of facilities method results in an average allocation to power of 62.8 percent.

Thus, the three methods recommended by the administrative agencies are those which, on the average, result in the allocation to hydroelectric power of high portions of project construction cost. Note also that the priority of use method results in a 53.8 percent allocation, the incremental method in a 50.8 percent allocation and the specific costs method in 34.7 percent allocations. None of these, which result in lower allocations of cost to power, are acceptable to the administrative agencies.

We are not contending for general application of the specific cost method which results in the lowest allocation to power. We are contending for general application of the incremental method which, in our opinion, best follows the intent of Congress, and which, for the 22 projects studied, would result in an allocation to power of approximately 50.8 percent of the project costs.

It is our position that the 1954 agreement between the Departments of Interior and Army and the Federal Power Commission is without congressional sanction, and a departure from congressional intent, because it establishes cost allocation procedures which not only fail to recognize the general proposition that power is usually an incidental purpose, but, in fact, goes far beyond and effectively holds that for practical purposes power is never an incidental purpose.

It is true that there may be some projects in which power is a principal feature. And in such cases, use of the separable costs-remaining benefits method or the alternative justifiable expenditure method would be appropriate. We feel, however, that the general rule should favor the incremental method because power is, in most cases, an incidental purpose.

RECOGNITION OF FUTURE DEVELOPMENT

Section 7(1) of H.R. 8 is an attempt to recognize, in the calculation of benefits attributable to a given multiple purpose or unit, the value of future economic development in the area, and the assumption, in calculating such benefits, that comprehensive basin development will proceed in an orderly manner.

There has been substantial administrative reluctance to accept and utilize initial appropriations for the first units of comprehensive river basin developments on the ground that the benefits attributable to the initial units will not accrue until other projects of the plan are completed. This problem arises especially in the case of developments which include navigation and power facilities. A given navigation channel is, of course, not usable until each of the locks and dams constituting it are complete.

This section of the bill may merely be declaratory of existing practice in some instances, but we feel it should be established as a statutory standard to guide all of the affected construction agencies.

TAXES FORGONE

Section 7(3) of the bill is an attempt to preclude application of the taxes forgone provision of Budget Bureau Circular A–47.

Paragraph 8h) of that directive reads as follows:

"Value of electric energy to be produced. This is equal to the lower of two figures: 8(h) (1)) The cost of equivalent energy from the cheapest alternative source of energy—private, Federal, or other—that is available, or could be expected to develop in the absence of the project, to meet the same power need. Taxes and interest charges for this alternative source should be computed on a basis comparable with the project * * *; (2) value of power to users (considered as the highest price they would pay, and applicable especially where the cost of alternative power would be prohibitive for particular users)."

The language has been interpreted as a mandate upon the power construction agencies to base their calculation of power benefits upon the cost of securing alternative power from a phantom Federal steam plant which would be the most unlikely of any imaginable alternative to actually develop.

It is a criterion which causes the power facilities of many multiple-purpose projects to appear less desirable, and, in some cases, reduces below unity the benefit-to-cost ratio of power features.

Thus on June 10, 1957, the House Committee on Public Works, in considering authorization of power features for the Lone Rock and Gilbert Reservoirs, on

the White River, was told by the Corps of Engineers that the benefit-to-cost ratio, considering taxes forgone, would be 0.83, whereas were this test not applicable the benefit-to-cost ratio would be 1.1 and no question would arise concerning the economic justification of the authorization.

The theory of taxes forgone is economically unsound. For, although a small increment of tax revenue might be created were a private plant constructed in lieu of the Federal project, it does not necessarily follow that because a Federal plant is substituted for the private plant, an equivalent reduction in tax contributions would occur.

Experience is just the converse. It indicates that the construction of a Federal multiple-purpose project generally stimulates the local economy to the extent that tax revnue from the geographical area in which the project is located increases substantially.

Nor is the taxes-forgone provision of Budget Bureau Circular A–47 based on any statute or other express congressional approval.

During hearings by the House Public Works Committee on the 1957 rivers and harbors omnibus bill, the chairman of the Rivers and Harbors and Flood Control Subcommittee of the Senate Committee on Public Works, appearing as a witness, questioned the chief of engineers as follows:

"Senator KERR. I would like to ask my good friend, the chief of engineers, if he knows and if he can tell this committee how many of them (projects) are on the statute books today carrying the burden of the principle of taxes forgone.

"General ITSCHNER. I do not know of any hydroelectric projects that are authorized today that have the provisions in it."

PROTECTION OF IRRIGATORS

Section 8(a) of H.R. 8 is intended to be declaratory of existing Federal policy by which that portion of project construction cost allocated to irrigation and which is beyond the ability of the irrigators to repay may be, to the extent necessary, recovered from the establishment of an appropriate rate for commercial power sales.

A REASONABLE PAYOUT PERIOD

Section 8(a) also establishes, for the hydroelectric features of multiple-purpose projects, a payout period based upon useful project life or 100 years, whichever is the shorter. This is an attempt to conclusively controvert paragraph 14(a) of Budget Bureau Circular A–47 which limits the repayment period to the lesser of the useful project life or 50 years.

The 50-year limit established in Budget Bureau Circular A–47 is, with respect to Corps of Engineers projects, not required by law.

Section 5 of the Flood Control Act of 1944 specifies:

"Rate schedules shall be drawn having regard to the recovery (upon the basis of the application of such rates schedules to the capacity of the electric facilities of the projects) of the cost of producing and transmitting such electric power, including the amortization of the capital investment allocated to power *over a reasonable period of years.*" [Italic supplied.]

We contend that the phraseology "reasonable period," when considered in connection with the durability of earth and concrete structures, should not be arbitrarily limited to 50 years.

During the 1956 hearings held by a subcommittee of the Senate Committee on Public Works to investigate the need for a Federal power rate increase in the Southwest, the chairman of the subcommittee asked Mr. Wright, the Administrator of the Southwestern Power Administration:

"Senator KERR. Now what is your opinion, and I am going to ask the engineers about this also, and if you do not have an opinion you do not need to give it, but I have a lot of respect for your engineering ability as well as the Army Engineers, what is your opinion as to the average useful life of these flood control projects in this group of seven?

"Mr. WRIGHT. I think there are some of them down there that are good for at least a thousand years. I think that we have none in the area that is not good for at least 150 years that are included in this study.

"Senator KERR. Would you think the average life of them would reasonably be estimated at 500 years?

"Mr. WRIGHT. I do, sir."

It is generally conceded that the revenue from project hydroelectric features will accrue to the Federal Government for a period in excess of 50 years. No

reason is, therefore, apparent to us why the payout period cannot be calculated to run coincidentally with the anticipated useful life expectancy of the reimbursable features of the project without regard to arbitrary limitations such as the 50-year period specified in Budget Bureau Circular A–47.

INTEREST RATES

Section 8(a) of H.R. 8 seeks also to stabilize the rate of interest applicable to funds invested in multipurpose projects by providing that the interest rate shall be equivalent to the average rate of interest borne by all marketable, interest-bearing obligations of the United States during the 15 years preceding the appropriation of initial construction funds.

In our opinion, this provision will minimize fluctuations in the interest rates applicable to successively authorized projects resulting from short-range variations in the cost of money.

RETROACTIVE APPLICATIONS

Section 9 of the bill would apply its substantive provisions to multiple purpose projects previously completed.

The comment of the Secretary of the Interior on this portion of the bill states that:

"As a general rule, such retroactive provisions are not desirable; however the merits of including a retroactive provision in this bill could be judged only after it is modified with respect to project formulation, cost allocations, and charges for project services."

On the presumption that the Secretary approves what he has already done, in applying retroactively to previously constructed projects the justification and cost allocation criteria which he deems desirable, his comment here to the effect that such action is undesirable is hard to understand. It could be also implied, from the Department's comment, that were the bill modified to conform with existing administrative policy, there would be no objection to retroactive study already accomplished with respect to projects previously completed. This is, in our opinion a most revealing statement by the Department.

RECOGNITION OF ALL BENEFITS IN DOLLAR TERMS

Section 5(a) of H.R. 8 would implement the language of section 3 by requiring that, in submitting reports and recommendations to Congress for project authorization and appropriations, such reports would be based upon the study of an entire basin. This section also would be, to some extent, declaratory of existing policy but would assure administrative adherence and preserve uniformity of future studies.

Section 5(b) is an attempt to assure that all recognizable benefits will be included in benefit-to-cost ratios, and that all benefits, to the extent possible, will be expressed in dollar values.

Paragraph 14(j) of Budget Bureau Circular A–47 revised provides:

"Until standards and procedures for measuring secondary benefits are established by amendment of this circular, the benefit-cost analysis of any program or project shall be based upon primary benefits * * * despite the importance of effects which are local or regional rather than national in character, such effects shall not be considered as part of the benefits-cost analysis; rather these effects shall be fully evaluated as part of the analysis of the relation of the project to sound local and regional economic development * * * " and

Paragraph 15 of Budget Circular A–47, revised provides that:

"The associated costs to be incurred and induced costs which will result from a proposed program or project shall be subtracted from benefit estimates before a comparison of benefits and costs is made. Induced costs shall be evaluated as extensively and fully as benefits * * * "

In effect, Budget Bureau Circular A–47 precludes the use of secondary benefits in the benefit-cost analysis, but requires the inclusion of so-called induced or indirect costs in such calculations, thereby seriously impairing the validity of apparent project evaluation studies.

An excellent example of the problem of evaluating intangible benefits was presented during the 1957 Senate hearings on S. 1164 before a subcommittee of the Senate Committee on Public Works. S. 1164 would have authorized the Corps of Engineers and Bureau of Reclamation to include in benefit-cost ratio calculations a dollar evaluation of recreational benefits.

During those hearings the Assistant Chief of Engineers for Civil Works testified that although the Corps does evaluate recreational benefits generally, such evaluations are not submitted to Congress and are not included in computation of benefit-cost ratios.

Senate bill 1164 (1957) provided that where reservoir areas are developed by the Secretary of the Army or the Secretary of the Interior, the annual recreational benefit shall be calculated as equivalent, in dollars, to the number of persons which might reasonably be expected to utilize the recreational facilities during a year, but not to exceed 15 percent of annual project costs.

During the Senate hearings on S. 1164, the Corps of Engineers testified that during 1955, some 62,522,000 persons utilized the recreational facilities at reservoirs under its jurisdiction. The Bureau of Reclamation testified that 8,703,000 persons used the recreational facilities at reservoirs under its jurisdiction during the same year.

The Sunday supplement Parade, of May 17, 1959, carried a feature article on the recreational use made of Federal water projects. "Without a doubt, artificial lakes, large and small, are the fastest growing vacation areas in America," says Parade which displayed a double page map of the United States showing all the Federal reservoirs. Yet no recreation benefits are generally calculated in the benefit-cost ratios of these projects.

It appears to us that, with respect to recreation benefits alone, a major factor favoring multiple-purpose project construction is substantially ignored. And to the extent that because of this fact the benefit-cost ratios of some projects are less than one, then to that extent we are deprived of the opportunity to develop a sound water resource project.

UNECONOMIC INCREMENTS

Section 5(c) of H.R. 8 provides for the permissive inclusion in multiple-purpose projects of units or features which, although themselves exhibiting a benefit to cost ratio of less than unity, would not reduce the total unit or project benefits below costs. In brief, it is a provision to allow the inclusion of uneconomic increments of benefit in a project that would not thereby be made uneconomic as a whole.

Under present administrative policies, the entire plan for a particular comprehensive river basin development plan must show an overall benefit-cost ratio in excess of unity as must each unit of such plan and each facility of each unit. This necessarily means that, in some cases, desirable features, such as municipal water supply or hydroelectric power, may be excluded from a particular unit or project because, as measured by the particular criteria in vogue at that time, they may not show a benefit-to-cost ratio above unity.

Let me emphasize that this part of the bill is not mandatory. It is permissive only and expresses the sense of the Congress that uneconomic increments may be included in multiple purpose projects, at the discretion of the agencies responsible for administering the law, provided that the overall economic justification of the project is not destroyed.

CONCLUSION

It is anticipated by those who have developed and advocate H.R. 8 that considerable objection to it will be raised. We welcome constructive criticism and will accept such amendments as may be necessary to prevent damage to other interested parties, provided, of course, that such amendments do not completely destroy the major provisions.

We suggest, however, that in view of the widespread acknowledgment of a need for this type of legislation, there rests upon the critics of H.R. 8 a burden to accompany their criticism with affirmative suggestions for an alternative approach.

Those who support H.R. 8 believe that the Nation can no longer afford to tolerate project justification and cost allocation procedures so restrictive that water resource development is brought to a standstill. For to adopt a program based upon criteria of this nature is to make that criteria the master of the people rather than their tool.

In conclusion, Mr. Chairman, let me again call to your attention the testimony of the recent Commissioner of Reclamation, Hon. Wilbur A. Dexheimer, offered before the House Committee on Interior and Insular Affairs on Wednesday, March 30, 1955, during a discussion by the committee of Budget Bureau Circular A–47. The following exchange took place:

"The CHAIRMAN. Without going into detail, Mr. Dexheimer, can you state whether or not any project now under study, and contemplated for authorization, could comply with the standards set up in A–47?

"Mr. DEXHEIMER. With the liberal interpretation of secondary benefits as a part of it, and utilizing the 50 years plus the 10-year development period, we have some that could come within that circular.

"Mr. CHAIRMAN. What are they?

"Mr. DEXHEIMER. The Ventura project would be one, in California, I believe * * *. But if you strictly construe the budget circular to the 50-year limitation, there are very few, if any, of our projects that would qualify.

"Mr. CHAIRMAN. In other words, it is fair to say that, except perhaps for the Ventura project in California, we would be at the end of the rope if we strictly applied the provision of this circular?"

EXHIBIT A. COST ALLOCATION

AGREEMENT AMONG DEPARTMENT OF THE INTERIOR, DEPARTMENT OF THE ARMY, AND FEDERAL POWER COMMISSION

Costs of a multiple-purpose project shall be allocated among the purposes served in such a manner that each purpose will share equitably in the savings resulting from combining the purposes in a multiple-purpose development.

Acceptable methods (see attachment for brief description):

(1) Separable costs-remaining benefits method: This method is considered preferable for general application.

(2) Alternative justifiable expenditure method: This method differs from (1) only in employing specific costs of the various functions rather than their separable costs. It is acceptable where the necessary basic data to determine separable costs are not available and the time and expense required to obtain the data are not warranted.

(3) Use of facilities method: This method is acceptable where the use of facilities is clearly determinable on a comparable basis and where use of this method would be consistent with the basis of project formulation and authorization.

MINIMUM ALLOCATION

Each purpose shall be allocated, in every case, as least its separable cost (the cost traceable to its inclusion in a multiple-purpose project). Limitations of basic data may occasionally require the use of specific cost (the cost of features identified solely with a single purpose) and other available data as constituting the best available basis for approximating separable costs.

LEGISLATIVE HISTORY

The legislative history of authorized projects shall be considered in the allocation of cost. The authorizing act, committee reports, project justification documents, and similar sources disclose the nature of the proposal submitted to the Congress and of congressional action thereupon.

CONSIDERATION OF ECONOMIC COSTS

In applying any one of the above allocation methods, taxes in an amount equal to those which would be forgone as a result of Federal development of the power rather than the most likely alternative development shall be included as an economic cost when distributing costs among the project purposes for analysis of economic justification, but shall be subtracted from the costs thus distributed to power in order to obtain the allocation of project costs to power.

VALUE OF POWER

The value of power produced means the estimated market value which would be obtainable if it were to be sold on an open competitive basis, without restriction as to use or resale. The value of power shall be determined as the lower of two figures:

(1) The estimated actual cost of equivalent power from the most likely alternative source that would be expected to develop in the absence of the project, to meet the same power needs, with appropriate adjustment for transmission costs and losses and other technical factors.

(2) Estimated value of power to users. (Applicable where costs of alternative power would be prohibitive either for part or all of the power produced.)

The value of power, determined as indicated above, shall be used for computations of economic benefits in project justification and for the allocation of project costs. It will not be used to establish the level of power revenues, which are based on the amortization of project costs (Federal power investment) over a reasonable period of years.

PROJECT FEASIBILITY

Criteria of project feasibility shall be such that, insofar as can be determined in advance:

(1) Projects will be considered economically feasible when the value of power (as defined above) will at least equal the project costs allocated to power, plus the amount of taxes which would be forgone as a result of Federal development of the power rather than the most likely alternative development.

(2) Projects will be financially feasible, i.e., they will have potential net revenues from power sales sufficient to reimburse the Federal Government for the Federal investment in power.

BRIEF DESCRIPTION OF METHODS OF COST ALLOCATION

The separable costs-remaining benefits method has the following steps:

(1) The benefits of each purpose are estimated.

(2) The alternatice costs of single-purpose projects to obtain the same benefits are estimated.

(3) The separable cost of each purpose is estimated.

(4) The separable cost of each purpose in the multiple-purpose project is deducted from the lesser of each purpose's benefits or alternate cost. The lesser figure is used since alternate cost is used in this method only if it represents a justifiable expenditure, that is, if it does not exceed the benefits.

(5) From total cost of project deduct all separable costs to determine residual costs.

(6) Residual costs, designated as joint costs in this method, are distributed in direct proportion to the remainders found in step 4.

(7) To determine the cost allocated to each purpose, add the separable and distributed costs for each purpose, and, in the case of power, subtract from that sum the amount of taxes forgone which was used in computing power costs under steps 2 and 3 above.

The alternative justifiable expenditure method has the following steps:

(1) The benefits of each purpose are estimated.

(2) The alternate costs of single-purpose projects to obtain the same benefits are estimated.

(3) The specific cost of each purpose is determined.

(4) The specific cost of each purpose in the multiple-purpose project is deducted from the lesser of that purpose's benefits or alternate cost. The lesser figure is used since alternate cost is used in this method only if it represents a justifiable expenditure, that is, if it does not exceed the benefits.

(5) From total cost of project deduct all specific costs to determine joint costs.

(6) Joint costs of the multiple-purpose project are distributed among purposes in direct proportion to the remainders found in step 4.

(7) Allocation of project cost is determined in the same manner as under the separable costs-remaining benefits method.

The use of facilities method has the following steps:

(1) The use which is made by each purpose of joint project facilities is estimated on some basis which is comparable for the purposes concerned, using such measures of use as those of flow, reservoir capacity, energy consumption, and others as may be applicable.

(2) The separable cost of each purpose is estimated. (In cases of minor importance specific rather than separable costs may be used.)

(3) From total cost of project deduct all separable costs to determine joint (residual) costs.

(4) Joint costs of the multiple-purpose project are distributed among purposes in proportion to the comparable measures of use of the joint facilities estimated in (1).

(5) To determine the cost allocated to each purpose, add the separable and distributed costs for each purpose and, in the case of power, subtract from that sum the amount of taxes forgone which was used in computing power cost under (2) above.

EXHIBIT B

TABLE I.—*Comparison of project cost allocated to hydroelectric power according to the allocation method used* [1]

Project	Total cost	Separable costs-remaining benefits	Alternative justifiable expenditure	Priority of use	Use of facilities	Incremental	Specific costs
		Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
1. Fort Peck, Mont.	$158,300,000	53.1	55.3	40.0	49.7	[2] 51.2	25.1
2. Garrison, N. Dak.	295,000,000	55.0	56.9	43.0	52.0		35.2
3. Oahe, S. Dak.	356,800,000	57.9	59.5	46.2	54.8		33.1
4. Fort Randall, S. Dak.	195,000,000	71.4	71.6	58.8	69.2		39.6
5. Gavins Point, S. Dak.	53,000,000	82.1	81.9	66.8	82.8		47.7
6. Norfork, Ark.	28,700,000	65.5	63.5	46.6	72.8	49.0	26.6
7. Table Rock, Ark., Mo.	68,700,000	76.7	74.6	69.3	81.2	68.8	23.2
8. Bull Shoals, Mo.	76,329,000	56.6	55.8	47.0	65.5	56.2	25.4
9. Denison, Tex., Okla.	62,208,000	42.8	44.8	31.8	60.8	31.8	21.4
10. Whitney, Tex.	43,988,300	18.2	17.3	18.2	23.6	18.2	14.6
11. Fort Gibson, Okla.	44,857,000	37.3	39.7	36.3	43.6	36.2	24.6
12. Tenkiller Ferry, Okla.	23,772,000	51.8	47.4	51.7	64.2	51.8	35.3
13. Narrows, Ark.	13,239,000	40.4	36.6	40.4	66.3	40.4	21.6
14. Blakely Mountain, Ark.	30,800,000	75.2	73.1	65.0	76.3	66.3	49.7
15. McNary, Oreg., Wash.	284,823,800	91.6	91.6	91.6	62.7	52.3	44.7
16. The Dalles, Oreg., Wash.	270,000,000	91.6	91.6	91.5	73.8	61.1	53.0
17. Bonneville, Oreg., Wash.	82,055,000	69.3	69.6	49.4	68.7	47.4	43.9
18. Colorado-Big Thompson	158,999,000	41.9	38.9	35.8	(4)	35.8	26.8
19. Colorado River storage	[3] 609,419,000	91.0	90.9	85.8	(4)	64.7	56.0
20. Fryingpan-Arkansas	156,541,000	28.5	28.4	24.6	(4)	24.6	23.5
21. Boulder Canyon	163,370,413	72.1	76.4	48.3	(4)	48.3	48.3
22. Columbia Basin	271,477,000	80.6	83.8	73.1	(4)	57.2	40.9
Total cost	3,447,378,513						
Average percentages		61.3	61.3	53.8	62.8	50.8	34.7

[1] Source: Supplemental memorandum of chairmen to members of Senate Committees on Interior and Insular Affairs, and Public Works, Jan. 24, 1957; based on data supplied by the Corps of Engineers and Bureau of Reclamation.
[2] Average for system composed for Fort Peck, Garrison, Oahe, Fort Randall, and Gavins Point. No data on individual projects given.
[3] Includes: Glen Canyon, Flaming Gorge, Curecanti, and Navajo.
[4] Not given.

Mr. DAVIS. The Chair would like to commend you for a very fair and a constructive analysis of this bill. I don't think we have heard any witness in recent years who has done a better job than you have this morning. I want to have that noted in the record.

Mr. Smith, do you have any questions?

Mr. SMITH. No questions.

Mr. DAVIS. Are there any questions on this side?

Mr. Baldwin.

Mr. BALDWIN. Mr. Chairman, I would like to join with you in stating that I think Mr. Robinson has made a very good and comprehensive analysis of the bill.

Mr. Robinson, I would like to ask a couple of questions as to page 9, dealing with section 8(a). You have mentioned that the amoritzation period under this bill would be 100 years. As I recall, though I don't serve on the Interior Committee we have an authority on that subject here, Mrs. Pfost, the length of time during which Interior projects have to be reimbursed, as I recall, is a considerably shorter period than that. Do you propose by this to provide that in those projects that are authorized through this committee and constructed by the Corps of Engineers but which nevertheless have some irrigation

benefits, that the power and irrigation benefits will be amortized at a considerably slower rate than when the projects are authorized through the Interior Committee to be constructed by the Department of the Interior?

Mr. ROBINSON. No, sir. I think in general the intent of the bill is to apply its criteria to all of the executive branch agencies which are involved with water resource development.

As I understand it, the Bureau of Reclamation uses a 100-year period in figuring benefit-cost ratio much of the time, and a 50-year payout period. Provisions of this bill would extend the payout period to 100 years or the anticipated useful life of the project, whichever is shorter, which in most cases will probably be 100 years. We would purport by this bill to apply that not only to the Corps of Engineers projects but to Bureau of Reclamation projects as well.

Mr. BALDWIN. So you are proposing, therefore, a complete change in the whole works, both Corps of Engineers and Department of Interior projects, as far as the payout period is concerned?

Mr. ROBINSON. I would say the change of present administrative policy, sir——

Mr. BALDWIN. Let me make one comment. It is more than administrative policy because as far as the Bureau of Reclamation is concerned, as I recall, the payout period is specified in each bill.

I will yield to the lady from Idaho.

Mrs. PFOST. The payout period is generally itemized in the bill.

Mr. BALDWIN. It is not an administrative matter. It is specified by Congress as they bring each bill to the floor of the House and Senate.

You are proposing to change the whole thing, both law and administrative procedure on these Bureau of Reclamation projects, along with the Corps of Engineers projects.

Mr. ROBINSON. Yes, sir; that is correct.

Mr. BALDWIN. The second question I have, still on page 9, section 8(a), in the portion dealing with rate of interest, this says:

> The rate of interest shall be equal to the average rate of interest (as determined by the Secretary of the Treasury) borne by all marketable interest-bearing obligations of the United States forming a part of the public debt and issued by the United States during the 15 fiscal years immediately preceding the fiscal year in which funds are first appropriated for the construction or modification of such features or facilities; * * *

The United States today has issued a considerable portion of short-term obligations that are 5 years or under because of market conditions. Does this mean that even if the United States issued a short-term obligation 6 years ago, if it is issued for a 5-year period and paid off within that 5-year period, that that would still be computed in determining this interest rate even though today it is not outstanding.

Mr. ROBINSON. That is a very good question. I am not an expert on fiscal affairs. My interpretation of the language under this bill would be that it would, yes. But I would very much like to furnish an answer to that question for the record, if I may, because I am an engineer and not an expert on matters of bond financing.

Mr. BALDWIN. I would appreciate it if the chairman would allow the witness to do that. The point that bothers me is that right today we are engaged in a period of market operations where the United

States is putting out an awful lot of short-term obligations in the market and refunding them in 5 years. Accounting for all of those operations put out and refunded in 5 years, all we have issued in 15 years, we could have a distorted picture. Half would be refunded and out of the picture, but they would be computed at the average interest rate though we are not paying on those obligations.

Mr. ROBINSON. That might be correct.

I might say if there is a better way to do it, if there is a better way to reflect a cost of money average over a reasonable period of years, that would preclude the interest rates applicable to particular projects from jumping up and down in response to short-term changes, then we would certainly be willing to have an amendment to the bill.

Mr. BALDWIN. In other words, if we could frame up some more appropriate language that would simply say the average cost of the obligations currently outstanding, for example, you would feel that that is flexible and you would not be ironbound by this particular wording.

Mr. ROBINSON. No, sir, I would not be. I would hate to agree on any particular wording without seeing it on paper and being allowed to give some consideration to it when I was not under the pressure of being a witness.

Mr. BALDWIN. Thank you very much.

(Material furnished by Mr. Charles A. Robinson, Jr., during hearings on H.R. 8, July 1959, in answer to questions asked on interest rate provisions of H.R. 8:)

The intent of the interest rate language beginning at line 18, page 9, is to include all marketable interest-bearing obligations of the United States issued during the 15 fiscal years immediately preceding that in which project constructions funds are first approprated. Included would be those obligations issued during such period and outstanding at the time of such initial construction appropriations, and those which are issued and discharged during the period.

The purpose of the language is to strike a balance between long-and short-term interest rates because of the fact that in actual practice both long- and short-term obligations are used to finance multiple-purpose projects.

Mr. DAVIS. Mr. Schwengel?

Mr. SCHWENGEL. Yes, sir. I would like to join in saying that I do believe you have made a very fine statement on your position in this matter. I promise you I will read with great interest your detailed statement.

I am glad to note, too, that you are not opposed to some reasonable amendments which might perfect the language of this bill and possibly the effectiveness and value of it.

I would like to say, too, that I note you are an engineer for the REA and a member of that great army of people who have made this great and wonderful program so successful throughout America and has contributed so greatly to the farm economy, in which I have a very keen interest and great concern, ever since I have been in Congress and before.

I would like to ask if your experience with the Army Engineers has been the same as ours; that is, that you have had—we and the other members of the committee will agree—we have had every reason to believe that they are very capable, very fair, very thorough and efficient in their work, and, so far as I am concerned at least, they have done a fine job representing the public interest.

Mr. ROBINSON. I think there there is no question whatsoever about our agreement on that subject, Mr. Schwengel.

Mr. SCHWENGEL. Having that in mind and noting also the language on page 5, especially line 19, where you have the word "shall", I am wondering if you would be in a position now to tell us whether or not you would oppose changing that word "shall" to "may", giving the Army Engineers and others who may have more information and who may be better qualified than Members of Congress to make a decision, to make recommendations based upon their findings. I think it would be a more honest recommendation than if we let the word "shall" in there.

Mr. ROBINSON. I assume that you are going back to the testimony of General Persons before the Irrigation and Reclamation Subcommittee?

Mr. SCHWENGEL. Yes. I have that in mind.

Mr. ROBINSON. That was a year ago. I believe General Persons said at that time that the corps would be required to recommend for construction, under this language, any project which showed a favorable benefit-to-cost ratio. On that point, I think we would be loath to change that word "shall" to "may".

I think Congressman Smith pointed out the very obvious answer to General Persons' objections to it, in that even though the corps were required to report favorably upon a project, it could so state in its report and could say that local conditions of X, Y, or Z nature make it undesirable to proceed with construction at the present time.

I don't know of an instance where such a situation has ever existed. Certainly the members of this committee, and of its subcommittees, would have called to their attention any overriding local social or political factors which made construction of a project undesirable; nor do I know of a case in which a project has been constructed where the Members of the Congress from that area don't want it constructed. So I can't conceive of how this would work to the detriment of the water resource program, as it stands at the present time.

Mr. SCHWENGEL. By leaving the language as it is, wouldn't it on occasion put a committee, even Congress, in a peculiar position, because the report would go out to the people in the area concerned that the Army Engineers are recommending it, and we know the ways of the press and people who want to be unfair—unfortunately we have those who do and are at times, even in organizations that have a fine reputation with the Congress—I would think it might leave us in a better position to do an honest job if we had that word changed, to take us off of the spot. I can see a situation which might develop where we would be in a very difficult position because of that word.

Mr. ROBINSON. I think it is conceivable that language could be placed in there which said that——

Mr. SCHERER. May I interrupt? You heard the language I suggested to Judge Trimble when he was on the stand, did you not?

Mr. ROBINSON. No, sir; I did not hear the exact language you used.

Mr. SCHERER. This is a rough suggestion. I worked it out while the witness was testifying. You could say, in substance:

The Engineers shall not make an adverse report merely because the benefit-to-cost ratio of one unit in a group does not meet the criteria.

Isn't that the purpose of this section, really? That there shouldn't be an adverse report merely because——

Mr. ROBINSON. Yes, sir; I think that is one way of attacking the problem that Congressman Schwengel has brought to our attention.

Mr. SCHERER. That has also been raised by Congressman Cramer and Congressman Mack. I certainly would object to the use of the word "shall."

Mr. ROBINSON. I think there is another way that a more positive approach might be undertaken, and that is to leave the language as it is and insert a proviso to the effect that if the Corps of Engineers believed there is a strong overriding reason why the project should not be recommended, they may so state.

Mr. EDMONDSON. Will the gentleman yield?

Mr. SCHWENGEL. Yes.

Mr. EDMONDSON. I understand the bill's objective is to get the Engineers or the reporting agency to hold to certain determined standards in their technical report as to feasibility. What the gentleman is trying to get is an assurance that this committee will receive nontechnical considerations also from the Engineers that might bear on feasibility.

I suggest we could, in line 21, right after the sentence which says "it shall report its findings to the Congress," add a phrase, "including any considerations of a nontechnical nature affecting the project's feasibility," and get what the gentleman wants done without interfering with the mandate which Congress is giving these agencies to balance costs and benefits and give us a technical report that says either the benefits exceed the costs or the costs exceed the benefits.

That is what we want from a technical agency. We don't want you determining whether these overriding considerations such as community attitude or community willingness should be the determining feature on this project. That should be a congressional determination.

Mr. SCHWENGEL. I agree with the gentleman, and that is going a step in the direction I want to go, but that still doesn't take away the objection I pointed out which we Members of Congress or members of this committee might be put behind the eight ball on, so to speak.

Mr. EDMONDSON. I would not want the Engineers to hold back from us any information they had as to a community's ability to participate or its willingness to participate. But I would not want them, on the other hand, to evaluate that situation themselves and rule a project out when our evaluation might be entirely different in that situation. When it comes down to determining whether a community wants a project or doesn't want it, I would rather trust the congressional opinion on that than I would the Engineers' or the Bureau of Reclamation or any other administrative agency.

Mr. SCHWENGEL. I agree with a certain part of the gentleman's position, but I still say there is a viewpoint that we should consider.

Mr. BALDWIN. Would the gentleman yield?

It seems to me all the points that have been brought out, both by Mr. Robinson and Mr. Smith a while ago, lead to the conclusion that in line 19, that just "shall" alone is not a good word. Actually, if we left this one line in here as it is, with the "shall," no matter how many

other qualifying statements we make, if we ask the Corps of Engineers pointblank, "Would you recommend this project for recommendation," they have no alternative under this sentence except to say "Yes," if it has a 1 to 1 benefit-to-cost ratio, no matter how many other factors should be considered. That is not fair to the Engineers.

The Engineers have devoted their life work to engineering. For us to bind them like that and say they have to tell us nothing but "Yes" or "No," is downgrading them to a point where they are no longer the advisers they should be.

Mr. EDMONDSON. We would't be doing that. As the gentleman from California knows, with the modifying language suggested, what we would be saying to them is that we want you, on a technical basis, to measure the benefits, to measure the costs, and to tell us whether on the basis of these standards for benefits and these costs, and these standards for costs, this project should go forward. If they have other considerations that should enter the picture, I think they should report them to us and we should weigh them and evaluate them. I don't believe they should pass on the question of whether a community wants a project or not.

Mr. BALDWIN. I agree the final decisive authority should be this committee. If I were a lawyer in a trial and I had some people, investigators, who had gone out to investigate all the evidence, to tell those investigators they couldn't tell me whether they thought I had a good or bad case would be foolish.

We are putting the committee in the same position. We are saying we don't want to give our technical specialists the right to give a recommendation, and we are just limiting the effectiveness of this committee.

Mr. EDMONDSON. What the gentleman wants to do is to give the investigators the authority to decide whether you are going to file a case or not. That is what we object to.

Mr. BALDWIN. To bar them from giving me a recommendation would minimize their effectiveness. Here we are doing the same thing.

Mr. EDMONDSON. I want to use them as an investigative agency and not a determining agency.

Mr. DAVIS. Let's have order.

Mr. SCHERER. It sounds like an REA Board meeting.

Mr. SCHWENGEL. I would like to yield to the gentleman from Mississippi.

Mr. SMITH. I agree that we can improve this language. I don't want to make any commitment about how it should be improved until we have had a chance to study it in detail. Barring the engineers from saying something, is what we don't want to do. We have gotten too much of the idea in this committee that we want "Yes" or "No" from some agency. Unless the agency says "Yes," we won't even consider it. We have authority here to make these decisions. Let's get full reports in all respects and make our own evaluations and decisions.

Mr. SCHERER. Will the gentleman yield?

I agree with the gentleman from Mississippi. What we are really trying to do here is to say that the engineers shall not turn down a project, merely because one unit of a group under certain conditions does not meet the benefit-to-cost ratio criteria. We are setting up a standard for them to follow. Isn't that what we are trying to do?

Mr. SCHWENGEL. I think you have got the point that this is maybe a controversial section. We had better study this further.

I yield back to the chairman.

Mr. DAVIS. Mr. Dooley?

Mr. DOOLEY. No questions.

Mr. DAVIS. Are there any questions from any other member of the committee?

(No response.)

Mr. DAVIS. This is a long statement. I think, without objection, it will be made a part of the record immediately following his verbal statement to the committee.

We have reached the hour of 12. Can we take time to hear one more witness?

I would say this, that the rest of these witnesses will not be heard in the morning. We will, of course, hear them tomorrow afternoon.

We will take time to put on one more witness.

Please state your name to the reporter.

STATEMENT OF JACK GAMBRELL, MANAGER OF CHOCTAW ELECTRIC COOPERATIVE, HUGO, OKLA.

Mr. GAMBRELL. My name is Jack Gambrell.

Mr. DAVIS. Mr. Gambrell, would you mind hitting the high spots in your statement, as did Mr. Robinson?

Mr. GAMBRELL. Thank you, sir. I will try to limit my remarks very briefly.

I am manager of the Choctaw Electric Cooperative, located in Hugo, Okla., serving 6,500 rural consumers in southeastern Oklahoma. I am Chairman of the Advisory Committee on Power for the Southwest, and the large delegation that you see here this morning are members of this committee.

This committee is interested in securing an adequate, dependable source of wholesale power at reasonable rates.

We are appearing here today in behalf of the House bill No. 8, known as the Trimble bill. We believe that the Congress of the United States has the duty to determine the allocation of costs. You authorize the projects to provide for their construction but we do not believe that you are exercising any control over the reimbursement portion of the project, nor do you determine the time required for such reimbursements. I would like to call your attention to the allocation of costs of multipurpose projects in the Southwest now being used on

completed and recommended projects. This is the six-State area represented here today.

Project [1]	Navigation	Flood control	Power	Water supply or conservation	Streamflow regulation	Total investment
Beaver [2]		$7,003,000	$45,418,000			$52,421,000
Blakely Mountain [3]		8,118,000	25,034,000			33,152,000
Bull Shoals [2]		30,301,400	64,473,200			94,774,600
Dardanelle [2]	$47,345,000		54,663,000			102,008,000
Denison [4]		41,236,600	19,873,250	$391,400		61,501,250
Eufala [3]	62,792,500	69,127,000	37,883,000			169,802,500
Fort Gibson [3]		26,666,300	16,957,800			43,624,100
Greers Ferry [2]		21,300,000	37,410,000			58,710,000
McGee Bend [3]		7,124,300	20,652,600	29,316,900		57,093,800
Narrows [2]		7,988,000	5,496,000			13,484,000
Norfork [4]		16,129,000	13,910,000			30,039,000
Table Rock [2]		10,324,000	69,744,000			80,068,000
Tenkiller Ferry [3]		11,582,400	11,800,700			23,383,100
Whitney [3]		32,706,100	8,060,300		$2,946,700	43,713,100
Total	110,137,500	289,606,100	431,375,850	29,708,300	2,946,700	863,774,450
Percent of total	12.8	33.5	50	3.4	0.3	100

[1] Exclusive of recreation specific costs.
[2] Approximate allocation on basis of current approved cost estimates, or best estimates available at this time, separable costs-remaining benefits method.
[3] Separable costs-remaining benefits method.
[4] Incremental-flood-control basic method.
[5] No information available on project with 52,000-kilowatt capacity installed. These investments taken from a tentative allocation with an installation of 45,000 kilowatts dated Sept. 3, 1957.

I would like to particularly call your attention to the figures concerning flood control which is only 33.5 percent of the total project cost. This is the reason we believe the Trimble bill is so important to our area.

In our particular area, the Denison Dam was built under authorization from Congress stating that power was to be repaid on the incremental method of cost allocations. This was true with the Norfolk project, but since this time Congress has allowed this decision to be made by the different agencies of Government.

This adversely affects the operation of every electric cooperative in this area. Whenever costs are allocated and a rate has been established to sufficiently meet the repayment schedule based on agencies agreement, all that is necessary to change this formula is for the agencies to decide to make new cost allocations. Should this occur, then the marketing agency must go back to the time that the projects were completed and refigure the amortization costs which not only result in rate changes but greatly affect the stability of the costs of wholesale power in this entire area.

This happened to the Southwest area when the agencies agreed on a new procedure of determining costs allocations. When this new formula was applied, the marketing agency found that it was several million dollars behind on its amortization payments. This required a substantial increase in wholesale power costs which directly affected all of the cooperatives in the Southwest.

The marketing agency under circular A–47 revised, when they applied this to the cost allocations of the multiple-purpose projects in the Southwest, received a 27-percent rate increase which we believed was directly due to the new cost method of allocations.

The General Accounting Office has consistently recommended that Congress enact legislation concerning cost allocations. I would like

to quote from the General Accounting Office report dated June 30, 1954, page 2:

In previous years a jurisdictional dispute has existed between the Department of the Interior and the Corps of Engineers, Department of the Army, concerning the allocation of construction costs of multiple-purpose projects.

We have been informed that general agreement on allocation of costs of multiple-purpose projects has been reached with the Corps of Engineers. The procedures agreed upon, however, leave unresolved the basic problem of final responsibility for making allocations. We believe that the basis for the differences that existed in the past which were fundamental in character should be resolved with finality by clarifying legislation.

On page 10:

Although the progress in reaching agreement on allocations of costs acceptable to both the Department of the Interior and the Corps of Engineers is commendable, it leaves unsettled the basic problem of final responsibility for making such allocations.

Accordingly, we repeat our recommendation contained in previous reports that the Congress designate specifically the answer to make the allocation of construction costs for projects either constructed or authorized for construction by the Corps of Engineers in the Arkansas, White, and Red River Basins.

This has been recommended in all of their reports that I have reviewed.

To stress the importance of this matter, I would like to call your attention to a statement of Mr. Douglas G. Wright, Administrator of the Southwestern Power Administration, before the subcommittee of the Committee on Appropriations, on April 15, 1959, and I quote:

I am concerned, and I have been concerned for a long time, about the problem of cost allocations because I find it is a constant variable with which we must contend.

I am of the opinion that the construction agency should make the cost allocation on these projects, and they should at least recommend it to the Congress, and Congress should make the final decision on how much is going to be allocated for the purpose of these projects.

In the first place, Congress was presented with some sets of facts on the basis of which you authorized and appropriated money for these projects. At that time you should have been told how much was going to be charged to power, how much the marketing agency said could be realized from the sale of power from these projects, and have some idea of whether or not power would support its part, and then you could have added the benefits on the other and see whether you wanted to build it.

I think after the job is done somebody should come back and tell you what it cost then, what is allocated then, and give you an idea to decide whether or not that is the way Congress wants it.

This is the fellow who is responsible for the selling of the power in the Southwest. This is a statement that he made this spring. This is one of the basic reasons that we think the Trimble bill or similar legislation must be passed.

This bill would change the payout life of the projects to 100 years, or the estimated life, whichever is the lesser. We believe that this would be fair and equitable, as all competent engineers have estimated that all of the projects in our area have a life expectancy of 150 years or more.

Section 5 of the Flood Control Act of 1944 provides in part as follows:

Electric power and energy generated at reservoir projects under the control of the War Department and in the opinion of the Secretary of War not required in the operation of such projects shall be delivered to the Secretary of the Interior, who shall transmit and dispose of such power and energy in such manner as to encourage the most widespread use thereof at the lowest possible

rates to consumers consistent with sound business principles, the rate schedules to become effective upon confirmation and approval by the Federal Power Commission. Rate schedules shall be drawn having regard to the recovery (upon the basis of the application of such rate schedules to the capacity of the electric facilities of the projects) of the cost of producing and transmitting such electric energy, including the amortization of the capital investment allocated to power over a reasonable period of years * * *.

The Flood Control Act of 1944 says allocations of power should be paid over reasonable periods of years. We think Congress should determine what is reasonable. We think that it is Congress responsibility to make those determinations.

What is the reasonable life of these projects? We do not believe that the 50 years now being applied is reasonable. We are asking that Congress make final determination of these matters, which we believe can be achieved only through legislation, in order that we might be able to determine future power costs in the southwest area. Only then will the cooperatives of the Southwest feel that the problem of cost allocations have been resolved with finality. That is our primary purpose in supporting H.R. 8.

Mr. DAVIS. Are there any questions?

Mr. SCHERER. Just one question.

Mr. DAVIS. Mr. Scherer.

Mr. SCHERER. Mr. Gambrell, in your first paragraph you say that you support the Trimble bill and—

this committee, represented by this group of people, is interested in securing an adequate, dependable source of wholesale power at reasonable rates—

and you are interested in securing power at lower rates than you are now getting.

Mr. GAMBRELL. We think that, should this bill be passed, that it would lower our wholesale power rates. We think too much is being charged to power facilities.

Mr. SCHERER. To give you those lower wholesale rates, it is going to some other agency or the taxpayer, isn't it, if you reallocate these costs? Somebody is going to pay for that.

Mr. GAMBRELL. If we reallocate the rates, what we are saying is that we are willing to pay the reasonable allocation to cost on the projects. We don't think that they are reasonable at this time.

Mr. SCHERER. That is what I mean. You want lower rates. I understand you want reasonable rates. But your support of this bill is primarily caused because you think if the bill is passed you will get lower wholesale rates than you now have.

Mr. GAMBRELL. Yes, sir.

Mr. SCHERER. To give you those lower wholesale rates, somebody is going to have to pay more, namely, the taxpayer; will they not?

Mr. GAMBRELL. Should that come to pass, we think that the other benefits should have to stand a larger portion of the cost of the project.

Mr. SCHERER. Then the other benefits will have to pay for your lower rates. You may be justified in getting them. I don't know. But somebody is going to have to pay for them.

Mr. GAMBRELL. We are willing to pay our share.

Mr. SCHERER. You just think now that you are paying too high a rate?

Mr. GAMBRELL. That is correct.

Mr. SCHERER. And somebody else is paying too little?

Mr. GAMBRELL. Yes, sir.

Mr. EDMONDSON. Will you yield?

Mr. SCHERER. Yes, sir.

Mr. EDMONDSON. Is the witness aware of how much the Southwestern Power Administration has increased its rates to preference users in the last 6 years?

Mr. GAMBRELL. Yes, sir.

Mr. EDMONDSON. How much has the increase been?

Mr. GAMBRELL. Twenty-seven percent, effective August 1957.

Mr. SCHERER. Are there any movements afoot for the southwest power group to issue bonds, like they are advocating for the TVA?

Mr. GAMBRELL. No, sir.

Mr. SCHERER. Do you think there will be if Congress passes the present TVA legislation authorizing issuance of bonds?

Mr. GAMBRELL. No, sir; for this reason: The southwestern power area is presently operating with integration contracts with companies, private power companies and cooperatives. It is our opinion that all parties are well satisfied with the present arrangement.

Mr. SCHERER. Except with the increase in rates, which the gentleman from Oklahoma mentioned.

Mr. EDMONDSON. The increase in rates was bitterly protested at the time it came about. As a matter of fact, the protest led to a substantial reduction in what the initial increase as proposed amounted to. Is that right?

Mr. GAMBRELL. That is right.

Mr. SCHERER. I understand. I am not in a position to judge at this time. I want to point out that if we give lower rates somebody has to pay for the differential; namely, the taxpayers all over the United States.

Mr. DAVIS. Are there any other questions from any members of the committee?

(No response.)

Mr. DAVIS. Governor McMath, between now and tomorrow, if some of your witnesses find it necessary to return to their homes for one reason or another, of course we will ask you to take their statements, and we will permit you to place them in the record tomorrow afternoon. That is in case any of them have to leave. Sometimes that does happen. I don't want anybody to think that they will be cut off.

I thank all of you for trying to make as much progress as possible without haste. We will meet promptly at 10 o'clock in the morning.

(Thereupon, at 12:15 p.m., the committee was adjourned, to reconvene at 10 a.m., Friday, July 10, 1959.)

(The following was furnished for insertion:)

NATIONAL RECLAMATION ASSOCIATION,
Washington, D.C., July 24, 1959.

Hon. CHARLES A. BUCKLEY,
Chairman, House Committee on Public Works,
Washington, D.C.

DEAR CONGRESSMAN BUCKLEY: This is intended as a statement, submitted to you in the form of a letter, pertaining to H.R. 8 (Trimble), a bill to promote and establish policy and procedure for the development of water resources of lakes, rivers, and streams. It will be very greatly appreciated if this statement can be included in the record of the hearings which were held before your committee on July 16 and 17, as indicated in your letter to me at the date of July 17th.

The Water Policy Committee of the National Reclamation Association, which includes one member from each of the 17-member States, met in Denver, Colo., on July 16 with 14 of the 17-member States represented. This committee voted unanimously to recommend to the board of directors of the association that H.R. 8 should be opposed for the following reasons:

(*a*) It contains many principles which are fundamental and far-reaching but which are in direct opposition to the long-established policy of our association.

(*b*) The bill is so drafted that it would be difficult, if not impossible, to make the amendments which our association deems necessary. In fact, we believe, the only way this could be accomplished would be to draft a new bill.

It is noted that the Department of the Interior in its report of July 9 has raised a number of objections to the bill and has reported adversely on the bill. Our association concurs with most of the objections raised by the Department of the Interior.

Our association is not fully convinced that it is advisable to add features or units of a multipurpose development which, in themselves, are not economically justified.

Our association specifically objects to the provision in section 6, which would provide for the allocation of power costs on an incremental basis. In this regard, we call attention to the House Committee Print No. 23, prepared by the House Committee on Public Works in the 83d Congress, 2d session. On page 29, the following is quoted:

"That all costs of a water resource development project be allocated so that each authorized purpose of the project will bear its own fair share of these costs."

Our association is of the opinion that this latter method is the proper way to allocate the costs of a multipurpose basinwide project development program.

It is noted that section 8(a) of the bill would exclude the cost of land and land rights which relate to electric power from consideration in establishing power rates. We doubt the advisability of this provision of the bill.

Although the committee did not consider fully and in detail all of the suggestions contained in section 5(b), it is evident that a number of those recommendations or provisions would be acceptable and in fact, considered desirable by our association. However, we do not believe it advisable to require a favorable recommendation by the responsible agency, such as required by section 5(b) which states:

"The policy is hereby established that when the total benefits, tangible and intangible, primary and secondary, are determined to exceed the total costs of a unit or project, a favorable recommendation for authorization shall be made by the agency making this study."

The above recommendations by the National Reclamation Association Water Policy Committee were subsequently unanimously approved by the associations' board of directors with 13 of the 17 Western States represented as follows:

Arizona: J. H. Moeur.
California: C. L. Kaupke, represented by Bert L. Smith.
Colorado: H. H. Christy.
Idaho: Alex O. Coleman.
Kansas: C. C. Green, represented by R. D. Wyckoff.
Montana: D. P. Fabrick.
Nebraska: C. Petrus Peterson.
Nevada: H. A. Shamberger.
North Dakota: M. W. Hoisveen.
Oklahoma: Frank Raab.
Oregon: L. E. Coles.
Texas: Guy C. Jackson, Jr., president, National Reclamation Association.
Washington: L. W. Markham, represented by Gayle Sterling.

We do appreciate this opportunity of submitting a statement for the record, setting forth our views on H.R. 8.

Respectfully submitted.

WILLIAM E. WELCH, *Secretary-Manager.*

STATEMENT BY ALEX RADIN, GENERAL MANAGER, AMERICAN PUBLIC POWER ASSOCIATION, TO HOUSE PUBLIC WORKS COMMITTEE, RE H.R. 8

This statement is being submitted on behalf of the American Public Power Association, 919 18th Street NW., Washington, D.C. The American Public Power Association represents more than 1,000 local publicly owned electric utilities, principally municipally owned utilities, in 42 States and Puerto Rico. Member systems of this association have a direct interest in H.R. 8, since many of these systems purchase all or part of their wholesale supply of electric power from multiple-purpose Federal projects. The two main problems affected by H.R. 8—criteria for determining the feasibility of projects, and methods for allocating costs among the various purposes of multiple-purpose projects—are matters of serious concern to this association.

It is apparent that at present there is no clear-cut uniform congressional policy concerning the subjects covered by the Trimble bill, and no adequate procedure for review of decisions by executive agencies on cost allocations.

Two considerations therefore are of great importance to your action on this bill:

1. Congress should fix general policies and practices for determining the feasibility of multiple-purpose Federal water resource projects, and the cost allocations for these projects. The present situation, in which the executive branch has changed the ground rules by shifting from one method to another, is unwise, and has caused undue hardships in certain parts of the Nation.

2. Congress should decide on policies and practices which will stimulate, rather than discourage, maximum, basinwide development of our Nation's great water resources.

The idea of developing our water resources on a comprehensive, basinwide basis is so plainly sound, logical, economical, and essential that it hardly seems necessary to labor the point. Our Nation has a profitable example of this multiple-purpose development on the Tennessee River and its tributaries, where a series of dams and reservoirs serve several purposes, with untold benefits in flood control, navigation, power generation, recreation, national defense, and related areas. We have the know-how, the undeveloped water resources and the financial ability to do this kind of river development job in many other parts of the Nation.

ALLOCATIONS OF COSTS

In order to obtain the maximum benefits from all of the multiple purposes of a hydroelectric project, it is essential that there be equitable provisions for the allocations of costs. The problem of allocations of costs of Federal multipurpose projects has long been of concern to our association. As early as September 26, 1949, the board of directors of the American Public Power Association adopted a statement of Federal power policy which contained the following recommendations:

"(*a*) Congress should fix policies and practices with respect to the allocation of capital at Federal multiple-purpose projects and these policies and practices should be uniformly applied upon all projects.

"(*b*) All administrative action with respect to capital allocations should be made subject to review."

The need for the policies advocated above are clearly indicated in connection with the rate problems which have faced the Southwestern Power Administration, for it is our understanding that one of the principal factors which necessitated their rate increase was the change in the method of cost allocation used by SPA. While earlier SPA rate schedules were established on the basis of an allocation of costs utilizing the incremental costs formula, the new rates were based on the application of the separable costs, remaining benefits formula. This latter formula results in a sharply increased allocation of costs to power. The use of the separable costs, remaining benefits formula is contrary to legislative history of the projects in the SPA area. The conditions under which these projects were authorized strongly supports the use of the incremental costs formula, inasmuch as these projects were built primarily for the purpose of flood control.

The effect of using the separable costs, remaining benefits formula rather than incremental costs is shown graphically in computations which I have made from a table submitted by Assistant Secretary of the Interior Aandahl in testimony on February 28, 1956, before the Senate Public Works Committee. The table headed "Investment—Allocation of Investment (1954 Studies)" shows that in the case of the Denison and Norfork projects, the use of the incremental costs formula resulted in the allocation of 31.9 percent and 46 percent, respectively, to power. On the other hand, the use of the separable costs, remaining benefits formula, as applied to the following projects, showed these allocations of the total cost to power: Bull Shoals, 57.6 percent; Fort Gibson, 37.3 percent; Tenkiller Ferry, 51.7 percent; Blakely Mountain, 75.3 percent; Table Rock, 76.7 percent. The average allocation of power in the two projects, Denison and Norfork, which were computed on the basis of the incremental costs formula is 39.3 percent, whereas the average allocation of costs on the projects computed on the basis of the separable costs, remaining benefits formula is 59.7 percent.

This change in the ground rules—namely, the substitution of the separable costs, remaining benefits formula for that of the incremental costs formula—is a serious one for the SPA customers. The inevitable increase in the burden on power which results from the use of this formula not only makes difficult the problem of future planning, but also upsets the conditions upon which certain obligations have been incurred in the past.

COST ALLOCATIONS PROCEDURE OF NATIONAL IMPORTANCE

The problem of cost allocations and the procedures relating to the fixing of such allocations affects not only the SPA area, but also other areas where Federal power is marketed. For example, I would like to call to your attention a situation in the Pacific Northwest which is indicative of the serious nationwide implications of this problem.

On December 4, 1953, the Federal Power Commission announced the allocation of costs on the McNary project on the Columbia River in Oregon and Washington. This allocation, which also was made according to the separable costs, remaining benefits formula, resulted in the assignment of 97½ percent of the joint costs of the project to power, or 92 percent of the total costs.

The Northwest Public Power Association, an organization of local publicly and cooperatively owned utilities, engaged in an exchange of correspondence with the Federal Power Commission in protest of these allocations, and the association petitioned for intervention. On March 4, 1954, the Commission wrote the Northwest Public Power Association, in part, as follows: "Inasmuch as neither the Bonneville Act, the River and Harbor Act of 1945, nor the Administrative Procedure Act contains provisions requiring the Commission to permit intervention or to hold hearings in determining project costs allocations, it must be concluded that the Congress intended to commit such determinations to the Commission's discretion. The Commission's action is hence not subject to judicial review under either the River and Harbor Act of 1945, the Bonneville Act, or section 10 of the Administrative Procedure Act."

In the face of this situation, as well as the situation in the SPA area, it is clear that action by Congress is needed if uniform policies governing cost allocations are to be followed and if those most directly affected by allocations of cost are to have a voice in the establishment of these allocations.

AMORTIZATION PERIOD

A closely related problem to that of the allocation of costs is the question of the amortization period used for Federal projects. Although our association has not taken a stand on this matter, we note that a 50-year payout period is used in connection with the SPA projects and that this period is used commonly in connection with many other Federal power projects.

However, there is reason to believe that a longer payout period may be appropriate. I call your attention to the fact that the Federal Power Commission, in its publication entitled "Electric Utility Depreciation Practices, 1951," estimates the life of a hydroplant at 69 years, but this is a composite figure including the dam, structures and improvements, water wheels, turbines, generator, and accessory equipment. Though not specifically stated, the obvious conclusion is that the estimated life of the dam is longer than 69 years because this figure averages in components of comparatively shorter life.

Again, the U.S. Treasury Department, Bureau of Internal Revenue, in its "Bulletin F, Income Tax Depreciation and Obsolescence, Estimated Useful Lives and Depreciation Rates," indicates 150 years as the useful life of a dam. This estimate was made for tax purposes.

Still another reference of interest is the "Hydroelectric Handbook," second edition, by William P. Creager and Joel D. Justin. Table 4, entitled "Useful Life of Elements of Hydroelectric Development" (see p. 234), indicates that for earth dams, mass concrete, and masonry dams, the estimated useful life is believed to be indefinite if these structures are properly repaired and maintained.

In view of these and other references, the provision in H.R. 8 (sec. 8(a)) relating to charges to cover "the useful life of the project or a period of 100 years, whichever is the shorter" appears to be a practical and fair method.

ECONOMIC FEASIBILITY

In the association's statement of Federal Power Policy, adopted in 1949, the following statement is made concerning determination of feasibility of Federal multiple-purpose projects:

"(*a*) The Congress should prescribe standards of economic feasibility for Federal power projects and these standards should be applied to all projects.

"(*b*) With respect to any administrative determination of feasibility of projects pursuant to standards prescribed by Congress, review should be provided by an independent agency.

"(*c*) In determining economic feasibility, each project should stand upon its own merits, but the interrelation of the proposed project with other projects (existing and potential) within the areas should be fully evaluated.

"(*d*) Minimum standards of feasibility should be such that power revenues, after payment of power operation, including depreciation, and maintenance expenses, should be adequate to provide for the payment of interest upon the capital investment of the United States chargeable to power and reasonably to insure the United States against loss of any part of such capital investment."

It seems to me that these principles, set forth 10 years ago, are in large part covered in the provisions of H.R. 8. Of special importance is the idea that Congress should set up standards. And I would again like to emphasize that administrative determinations should be subject to review.

At its most recent annual convention, the American Public Power Association adopted a resolution urging Congress to "fix policies and practices with respect to the making of cost allocations at multiple-purpose water resources projects" and resolving that the association supports the sponsors of H.R. 8 and related bills "in their efforts to seek remedial legislation * * *." A copy of the text of this resolution is attached as exhibit A.

RESOLUTION NO. 7—ADOPTED MAY 28, 1959, AT THE 16TH ANNUAL CONVENTION OF THE AMERICAN PUBLIC POWER ASSOCIATION, MEETING IN SEATTLE, WASH.

COST ALLOCATIONS

Whereas electric rates at certain multiple-purpose projects have been artificially increased by means of unfair allocations of costs to power; and

Whereas several bills, including S. 1591 by Senator Kerr, H.R. 8 by Representative Trimble, and H.R. 3704 by Representative Aspinall, have been introduced for the purpose of returning to Congress jurisdiction over cost allocations, and

Whereas other bills, such as S. 159, H.R. 290, and H.R. 2451, would provide for making a cost allocation for recreation as one of the purposes of multiple-purpose projects: Now, therefore, be it

Resolved, That the American Public Power Association urges Congress to fix policies and practices with respect to the making of cost allocations at multiple-purpose water resource projects; and be it further

Resolved, That the association supports the efforts of the sponsors of the above legislation to seek remedial legislation looking toward fair policies and practices relating to cost allocations and other conditions which will conform to the policy of Congress that Federal Power be marketed as nearly as possible at actual cost.

STATEMENT OF GUS NORWOOD, EXECUTIVE SECRETARY, NORTHWEST PUBLIC POWER ASSOCIATION, RELATING TO H.R. 8

Mr. Chairman and members of the committee, my name is Gus Norwood. For the past 11 years I have served as executive secretary of the Northwest Public Power Association, which is comprised of 105 consumer-owned electric systems serving almost 2 million people in the States of Alaska, Montana, Idaho, Oregon, and Washington.

Most of our systems purchase all or part of their wholesale power from the Federal Government, either through the Bonneville Power Administration or the Bureau of Reclamation. During 1958 our systems paid into the U.S. Treasury somewhat over $25 million for electric power.

We have a vital stake in the Trimble bill. It deals with cost factors or ingredients which make up the power rates which we must pay.

We favor the Trimble bill in principle.

SELF-LIQUIDATING PRINCIPLE

We favor the basic principle that the Federal power program should be operated on a strictly self-liquidating basis. We know of no other sound policy or principle as an alternative. So we begin our testimony with the self-liquidating principle as our premise.

WHAT IS THE MAIN POLICY DECISION IN THE TRIMBLE BILL?

From our point of view, and we think also in terms of the best interest of the Government, the central issue in the Trimble bill is the decision as to the life of dams, namely, whether it shall be 50 years as in the past or, as we urge, a more realistic period of 100 years.

We think realistically that a 150-year period would be fully justifiable. Some experts in the Bureau of Reclamation have urged indefinite economic service life.

While the Bureau's advanced thinking about indefinite service life is appropriate for economic evaluation of projects, it is not proposed by the Bureau for payout purposes.

In turning to payout periods we wish to urge most strongly the use of a 100-year period for two main reasons: (1) Effect on power rates, and (2) effect on cost allocation with further effect on power rates.

First, interest and amortization charges constitute the chief factors in determining power cost from Federal projects. In the case of the U.S. Columbia River power system, a 1-percent increase in debt service charges increases power cost 16 percent. Thus, as 2½-percent interest is used by BPA, the interest cost constitutes 40 percent of the cost of power.

The annual debt service charge based on 2½ percent interest and a 50-year payout period is 3.5258 percent. For indefinite service life this drops to 2.5000 percent. For 100-year repayment period the charge annually is 2.7312 percent. The respective reductions in charges are thus 1.0258 and 0.7946 percent. As a matter of practicality, it will be seen that the 100-year repayment basis affords 77 percent of the advantage as compared to indefinite life for repayment purposes.

In terms of impact upon power rates, the reduction of 0.7946 percent in debt service charge which results when the payout period of 100 years is used gives a reduction in wholesale power rates of about 12 to 13 percent in the case of the U.S. Columbia River power system.

This may not seem like much, yet it is just another additional surcharge burden in the power rate. Private utilities are regularly allowed to use 100 years for depreciation of depreciable property and indefinite life for real estate and other assets. Thus, if the Federal Government were to adopt a 100-year amortization period it would still be a more severe requirement than the Federal Power Commission places upon private electric corporations.

Interestingly enough it was the Federal Power Commission in the Bonneville Dam interim allocation report of 1945 which set the 50-year repayment requirement for Columbia River projects Thus FPC has a double standard, a lenient policy for private utilities, and a Draconian ground rule for Federal agencies. We think Congress should determine such highly important policy questions.

We recommend the adoption of a standard Federal practice of a 100-year repayment schedule, or the economic service life, whichever is shorter, for all Federal water resources projects.

Second, our other major reason for favoring a 100-year period is for cost allocation purposes. An important distinction should be made at this point. The Congress can use different length periods for different purposes just as a matter of policy. Thus, a 100-year period for cost-allocation purposes happens usually to be of greater monetary importance to power users than a change from 50 to100 years for payout purposes.

In the case of multiple-purpose projects it has long been a fact that the power benefits are achieved almost as fast as generators can be installed and the benefits then remain quite constant to give a generally horizontal benefits curve over the years.

In contrast the benefits curves for navigation and flood control are usually very low in the early years. It is not unusual for the development period of the project to require, as in the case of TVA, some 25 years. Then the curve rises dramatically, Thus in the second 50-year life period the benefits for flood control or navigation may be three or four times as great as they were in the first 50 years.

The consequences in terms of cost allocations will be apparent if one bases the cost allocation on 100 as compared to a 50-year basis. Except in the most unusual situations the longer period should result in more reasonable cost allocations.

Unfair cost allocations have continually plagued the buyers of power from Federal projects. Not only is the normal bent of Federal officials in the direction of conservatism, but there appears to be considerable competition to appear to be more conservative or sound than the next official. This tendency is nurtered by tremendous pressure from private utility influences.

Against this tendency there has been no countervailing force. Only the Congress can rectify the situation. Furthermore we consider the making of cost allocations to be an extension of the appropriations authority and responsibility placed by the Constitution in the Congress.

As a matter of philosophy, we think much can be said for the recommended 100-year policy. It is based on plenty of experienced. We have much confidence in our dams lasting much longer than that. The physical, engineering and economic justification is there.

Also the easy, most lucrative projects have generally been built. With each passing decade the benefit-to-cost ratios will become less unless the ground rules for making economic evaluations are made more realistic.

Finally, it is particularly incumbent upon the Federal Government to take the leadership in espousing the long-range point of view. It is illogical to expect tht individual citizen to take the long-range point of view if the Government operates on a short-term 50-year basis.

In contrast it should be recalled that many of the cathedrals of Europe required hundreds of years for their construction, and many such buildings have been standing for over a thousand years.

COMPREHENSIVE DEVELOPMENT

We hasten to admit that the definition of comprehensive plan as used in H.R. 8, page 4, lines 5 through 14 originated in our office some years ago. It was originally proposed for inclusion in the Federal Power Act for tightening section 10(a) of that act to prevent any more Hells Canyon Dam fiascos.

The committee will wish to take note that Senator Warren Magnuson and others on January 20, 1959, introduced S. 584 which includes a slightly different handling of the problem of defining comprehensive plan by breaking down the definition into a series of definitions.

We do not quarrel with the definition used in H.R. 8. However, if the point is made that it is not sufficiently clear, then we would urge the making of a comparison with the language of S. 584.

INDIRECT BENEFITS

One of the large areas of future and most promising research in the field of water resources project economics is that of indirect benefits.

The Bureau of Reclamation has done some pioneering in this field and has published a brief bibliography. The Trimble bill takes an important step forward in urging the consideration of both indirect costs and indirect benefits.

Administrators may require a decade or more of research to develop suitable methodology for handling the indirect impacts of a project, but this study will not expeditiously be done without an adequate policy directive from Congress.

We strongly favor the inclusion of indirect costs and indirect benefits in evaluating water resources projects.

INTEREST RATES

We favor the lowest possible rate of interest at water resources projects. What that rate should be is a matter of judgment. The importance of the rate is indicated at critical projects like Hungry Horse Dam where an added 1 percent of interest would increase power cost 24 percent.

We are generally satisfied with both the 2 percent REA interest rate and the 2½ percent rate at Federal hydroelectric projects. We strongly oppose the suggestion that these rates should be increased to pay for artificial monetary policies. The approach of the Trimble bill to the interest rate question appears to be reasonable. The chief merit of the fixed 2 and 2½ percent rates is the ease and certainty of computation.

RECREATION BENEFITS

We favor the inclusion of recreation as a project purpose and that costs allocated to recreation be made nonreimbursable in the same manner as investments in national parks and monuments.

PREVIOUS TESTIMONY

Our previous testimony on the Trimble bill was filed on March 26, 1958, together with 13 exhibits on H.R. 965. We desire to incorporate this testimony by reference.

ENCLOSURE

Enclosed is our March 27, 1959, letter to Secretary of the Interior Fred Seaton, discussing cost allocations and other factors determining Federal power rates.

SUMMARY AND CONCLUSIONS

We especially favor a congressional directive for a 100-year period for payout and cost allocation purposes at water resources projects.

We consider cost allocations to be part of the appropriations function, which, under the Constitution, should be finally approved by the Congress.

The origination of cost allocations should include the power marketing agency. If authority and responsibility are to be commensurate, it is essential that the present inequity and stalemate be changed where the construction agency incurs the costs and makes the cost allocation while the power marketing agency in effect obtains a "pig in a poke" and must sign a blank check in payment therefor. The solution to this hassle is for Congress to assert its authority. We do not know which of the 34 different methods of cost allocation could possibly be suitable to all projects. The recognized authorities in this field are agreed on only one conclusion: Cost allocation is a matter of judgment.

Our more recent thinking in favor of referral of cost allocations for final approval by Congress is reflected in S. 1927 to amend the Bonneville Project Act. The language appears in subsection 6(d) of S. 1927 at pages 18, 19, and 20.

We favor the inclusion of recreation as a project purpose on a nonreimbursable basis. We favor the inclusion of indirect costs and indirect benefits in project evaluation.

We endorse the Trimble bill H.R. 8 in principle. The mode and extent of endorsemnet is based on a 1957 resolution of this association which reads:

"We endorse the principles of the Trimble bill as regards cost allocations and other factors in Federal power rates."

Thank you.

POLICY AND PROCEDURE FOR THE DEVELOPMENT OF WATER RESOURCES

FRIDAY, JULY 10, 1959

HOUSE OF REPRESENTATIVES,
COMMITTEE ON PUBLIC WORKS,
Washington, D.C.

The committee met, pursuant to notice, at 10 a.m., in room 1302, New House Office Building, Hon. Clifford Davis presiding.

Mr. DAVIS. The committee will be in order.

We meet this morning for a further consideration of H.R. 8. We heard from some Members of the House, including Judge Trimble, the author of the bill, and others. We have heard some things which change substantially the economics of these water resource projects.

We are delighted to have as our first witness this morning General Itschner, Chief of Engineers. We wish we could have him here all the time.

We can say to you in all sincerity, General, that all of your representatives ably represent the corps when they appear before this committee. It is always a delight for us to have the Army Engineers here because they are fair, factual, thorough, they know their subject, and they present their case well.

General, we will be glad to hear from you in your own way as you comment on your views in connection with H.R. 8.

STATEMENT OF MAJ. GEN. E. C. ITSCHNER, CHIEF OF ENGINEERS, U.S. ARMY

General ITSCHNER. Thank you very much. I would like to express my appreciation for the kind words that you have said about our Corps of Engineers representatives, who have appeared before your committee.

Mr. Chairman and members of the committee, I am here in compliance with your request for an expression of the views of the Army and Corps of Engineers on H.R. 8.

Although the official views of the Department of the Army on this bill have not been requested by your committee, I am able to give you our views concerning it on the basis of positions that have been taken previously on similar proposals.

I should say at the outset that the Department of the Army and Corps of Engineers have always supported legislation designed to further sound water resources development and to obtain more uniform procedures for planning and accomplishment of this important work. There is much in this bill which would contribute to those objectives.

We fully support the concepts of water resources development on a multiple-purpose basis by river basins that are set forth as policy in the bill. We also agree with the idea of comprehensive development under which all purposes and problems would be given appropriate consideration.

I regret, however, that we cannot support this bill in its entirety, because it contains a few features which we believe are not in accord with sound project formulation and economics, and are contrary to good public policy. I believe that it is my responsibility to call these features to the attention of this committee.

A major departure of this kind is the provision of subsection (c) of section 5. This provision would permit the inclusion of uneconomic projects, units, facilities, or features in a comprehensive basin plan, so long as the benefits of the entire basin plan are not less than its cost. This means that poor projects would be carried by good projects. Thus, wealth-producing projects would be consumed by the projects which cost more than they return. It seems obvious that the Nation would be unwise to build one project to increase its wealth, and then build another, uneconomic project to assure that this wealth is wasted. Hence, I feel that this provision of H.R. 8 should be eliminated.

Another provision of the bill which conflicts with generally accepted ideas of good public policy is found in subsection (3) of section 6. Under this provision the only part of the cost of a multiple-purpose project which could be allocated to power would be the cost of adding power to a project incorporating all purposes except power; that is, only the incremental cost could be allocated to power.

The effect of this provision would be to relieve one purpose—power—of the necessity of paying for its share of that part of the reservoir which serves more than one purpose. It is an accepted principle of cost allocation that each purpose should bear its fair share of the cost of a multiple-purpose project to avoid subsidizing one purpose at the expense of another. It seems to us that it would be most unfair to the Nation's taxpayers—and it is the taxpayers who pay for the reservoirs which make the production of the power possible—if those who use the power do not pay a fair share of this joint cost.

We feel compelled, therefore, to recommend that in the allocation of costs, power be treated in the same way as other purposes of multiple-purpose projects.

A further feature of H.R. 8 which seems undesirable is that provision of subsection (b) of section 5 which would make it impossible for a reporting official to give the Congress the benefit of his judgment by requiring him to recommend the authorization of any project producing benefits in excess of costs. We suggest that the Congress needs to know what the reporting official really thinks about a project. To bar his advice by law would, to say the least, be making inefficient use of a public servant. There are instances where other than economic characteristics of an undertaking should be considered in judging its worth to the Nation.

We have one further suggestion to make. Subsection (b) of section 8 provides that interim rates to be charged for power should not exceed 5 percent of the Federal investment in the powerhouse and other power equipment. In other words, the rate would be based upon the specific costs chargeable to power. If the procedure of

establishing an interim rate should be adopted, it would be better to set the rate at 5 percent of the separable power cost. The separable cost is the cost of adding power to the project, including the cost of any increase in the size of the reservoir made necessary by the inclusion of power. This is, of course, the same as the incremental cost of power.

In concluding my statement, I should like to call to your attention that those features of H.R. 8 which we have been forced to question are in conflict with the recommendations resulting from a number of comprehensive and intentive studies of water problems and policies. These include the 1941 recommendations of the Water Resources Committee established by the National Resources Planning Board, the 1950 recommendations of the President's Water Resources Policy Commission, the recommendations made by the second Hoover Commission in 1955, and the recommendations of the Presidential Advisory Committee on Water Resources Policy as set out in the report submitted to the Congress by President Eisenhower on January 17, 1956. The latter report is still before the Congress.

The opportunity afforded me to express these views is greatly appreciated, and I hope that they may prove of some value to the committee.

Thank you, sir.

Mr. DAVIS. Thank you, General Itschner.

Mr. Smith, do you have any questions?

Mr. SMITH. To summarize these specific objections to the bill presented by the corps, it is the feeling of the corps that there should be legislation along this line brought forth as to how the benefits should be analyzed?

General ITSCHNER. Yes, Mr. Smith, we feel that there is a need for a lawd of the type of H.R. 8. We are in favor of the bill as a whole, but we feel that there are certain modifications that should be made to it, and I have outlined those modifications which we would recommend.

Mr. DAVIS. Mr. Mack?

Mr. MACK. General, I am sorry I wasn't here at the beginning of your statement. What is the position of the U.S. Army Engineers relative to making a mandatory requirement that they shall report a project favorably if the benefit-cost ration is above——

General ITSCHNER. The Corps of Engineers and the Department of the Army, Mr. Mack, are not in favor of the provision which makes it necessary that they report favorably on a project merely and solely because the benefit-cost ratio is favorable, because we recognize that there are occasional projects where it might be undesirable to so recommend.

I can think, for instance, of a case in your Pacific Northwest, where even though a project may be economically justified, it might be highly undesirable to recommend it for construction because of its adverse effect upon the fishery resources.

Mr. MACK. Yesterday there was some discussion with one of the other witnesses relative to your reporting favorably a hydroelectric dam where the benefits were far less than the cost. That is, by bringing it in with a group of dams. Does the Army have a position on that?

General ITSCHNER. Yes, Mr. Mack. I did make a statement that the Corps of Engineers and the Department of the Army favor a method of justifying individual projects or units, as they are called in this bill——

Mr. MACK. You do favor justifying each unit or a units group?

General ITSCHNER. I favor justifying each unit, each project, each purpose in a project, separately.

Mr. MACK. Just one other question. In the very last lines on page 11:

None of the provisions of this act shall apply to units or projects (A) developed or to be developed pursuant to the Tennessee Valley Authority Act of 1933 or *(B) for which the allocations of costs have been previously determined by* congressional enactment.

Relative to the dams of the Columbia River, have the apportionment of costs been made on those projects?

General ITSCHNER. Cost allocations have been made. In some cases the cost allocation was prescribed by law.

Mr. MACK. In a general way the Columbia River dams would not be affected by the benefit-cost provisions of this legislation?

General ITSCHNER. Most of the projects on the Columbia River would be affected by this law because there are only a few of them on which cost allocation has been accomplished in accordance with their authorizing legislation.

Mr. MACK. General, would they be affected retroactively?

General ITSCHNER. In those cases, sir, where there is existing law which provides for the allocation of costs on the projects on the Columbia River, this bill, H.R. 8, would not apply. But there are a number of projects on the Columbia River for which the cost allocation has been accomplished by the Federal agencies and not in accordance with a specific law. In those cases the cost allocations would be affected by H.R. 8.

Mr. MACK. Could you supply for the record the effect of this legislation on such major dams already completed, such as McNary, Bonneville, and the others on the Columbia River?

General ITSCHNER. Yes, sir. I shall provide that information for the record.

(The information requested follows:)

Columbia River basin projects under jurisdiction of the Corps of Engineers with power in operation—Comparison of cost allocated to power with incremental cost of power

Project	Construction cost		Approximate incremental cost of power
	Total	Allocation to power	
Albeni Falls	$31,100,000	$30,790,000	[1]
Detroit (including Big Cliff)	62,793,400	39,440,000	$24,500,000
Lookout Point (including Dexter)	87,887,800	39,326,000	25,600,000
Chief Joseph	148,000,000	148,000,000	148,000,000
McNary	236,400,000	240,432,000	149,200,000
The Dalles	252,000,000	213,224,000	150,000,000
Bonneville [2]	84,117,800	57,725,000	47,200,000

[1] Flood control and navigation benefits represent only a small part of the total and are provided by the project development which is basically for power.
[2] Includes interest during construction.

Mr. MACK. How does the U.S. Army Engineers feel about the provision of amortizing the project over a 100-year period? Does that come within the province of the U.S. Army Engineers?

General ITSCHNER. We have been using in our cost allocations and economic analyses for justifying all of our projects, a time period of 50 years, or if the economic life of the project is less than 50 years, such a lesser life. We have been doing that because we felt that it was a conservative method of making economic analyses and cost allocations.

We recognize, however, that the true life of these projects is often greater than 50 years. The common practice in public utility companies is to use a longer life on an average for their projects. The U.S. Treasury Department, in its Bulletin F: "Income Tax, Depreciation, Obsolescence, Estimated Useful Lives, and Depreciation Rates," provides generally for longer useful lives than 50 years for dams and similar structures.

The generators on the other hand will be less than 50 years. In this document it gives the lives of generators to be anywhere from 14 to 28 years. We think they have a life longer than that, probably 30, 35, or 40 years.

Mr. MUMMA. May I ask a question?

Mr. MACK. Just a minute. I want to follow this up.

General, in operating a newspaper business I purchased a large press for the printing of newspapers. I know that the press—I amortize it over a 25-year period. I know that press is good for 50 years or more. One reason for the shorter period of course is obsolescence. It may be useless in a 25-year period due to new inventions and new improvements. That is likewise true of these dams. We realize that the economic life will probably be far more than 50 years but at the same time some other method of producing energy may be developed that will cause these dams to become obsolete. That is one of the reasons for limiting amortization to 50 years, is it not?

General ITSCHNER. That is correct. Obsolescence of mechanical equipment, machinery particularly, is important. The obsolescence of a dam is something that is much less apt to occur in a brief period of 50 years. I think these dams undoubtedly are going to last for hundreds of years. It is hard to conceive that the dams themselves will become obsolescent even in a matter of centuries.

The generating equipment is something that actually does, from experience, become obsolescent in time. That time probably would be somewhere in the vicinity of 50 to 75 years.

Mr. MACK. That is all, Mr. Chairman.

Mr. DAVIS. Mr. McFall?

Mr. MCFALL. No questions.

Mr. DAVIS. Mr. Scherer?

Mr. SCHERER. General, yesterday a witness who represented an electric cooperative testified in support of this legislation. He told the committee that the cooperatives were interested in obtaining reasonable rates, wholesale power rates, and that was the reason they were supporting this legislation. He indicated that if this legislation was passed, the rates would be lower than the present rates they are now

paying for wholesale electric power. If the enactment of this legislation would eventually result in lower power rates, somebody would have to pay that difference, would they not, somewhere along the line?

General ITSCHNER. I am not so sure they would. If the lower power rates were sufficient to amortize the investment, then the consumers of the power would pay the difference. If the lower rates were so low that the investment could not be amortized, then of course somebody else would have to pay for it, and that would be the taxpayer.

Mr. SCHERER. That would be the taxpayer, would it not?

General ITSCHNER. Under those circumstances, yes, sir.

Mr. SCHERER. Taxpayers all over the country?

General ITSCHNER. Yes, that is correct. So therefore it is essential that the power consumer pay a sufficient amount to amortize the investment.

Mr. SMITH. Will the gentleman yield?

Mr. SCHERER. Yes.

Mr. SMITH. One of the factors involved there is that in some of these dams they are just not built as a result of the present formula. That is one of the factors in regard to sufficient power that should be brought out. Who would pay the difference?

General ITSCHNER. May I add to the statement I made to you, Mr. Scherer. I would like to add this statement, that if the amendments were made to H.R. 8 that we have proposed, the consumers of the power would pay for the entire cost of power in these projects.

Mr. SCHERER. My question was directed to the witness on the basis as the bill now stands, the bill that he is supporting. He admitted that somebody would have to pay the difference. It would have to be the taxpayer.

Mr. MCFALL. Would the gentleman yield?

I think in fairness to the witness, one point should be brought up.

Mr. SCHERER. This witness or the witness yesterday?

Mr. MCFALL. The other witness you are speaking of. If there is such a difference, he intended to say that the benefits to other people or other sections of the economy should be borne by them, and not an unfair burden be placed upon those who use power. So that it is a question in these instances of what is fair and what is equitable, and not just a question of the difference being borne by the American taxpayer, don't you think?

Mr. SCHERER. But whether it is fair or unfair, somebody is going to have to pay the difference.

Mr. MCFALL. I suppose that is true of any cost. The problem is how to allocate it fairly. Then you have to sit down and see what the benefits are to each segment of our economy.

Mr. SCHERER. You say the witness did not say what you said; you say he intended to say that. You assume that he did.

Mr. MCFALL. I think if you will look at his testimony it can be shown that that is what he either said or what he intended to say. He felt that the higher rates which power has to pay are not justified by the facts.

Mr. SCHERER. I understand.

Mr. DAVIS. Mr. Baldwin?

Mr. BALDWIN. Mr. Chairman, I have noticed that in his opening remarks General Itschner mentioned that no request had yet been submitted to the Corps of Engineers for a written report on the bill. General Itschner has made a number of recommendations which I think are very important to the future deliberations of the committee on the bill, such as the elimination of that portion on page 5 which requires mandatory favorable recommendation, and elimination of subsection (c) on page 5, and a material modification of subsection (3) at the bottom of page 6, and a material modification of subsection (b) of section 8 on page 10.

Inasmuch as most of the members of the committee are not here, and therefore will not have heard the oral testimony, it seems to me that it would be proper for this committee to request the Corps of Engineers for a written report that could be made available to all members of the committee, because certainly the Corps of Engineers report is extremely important to all of us. We have a committee membership of about one-fifth that heard it.

Mr. DAVIS. You will recall that yesterday an announcement was made that all of the agencies would be requested to reply. That will be forthcoming.

Another way to look at it, of course, we could read in the record General Itschner's statement of this morning, which is fully complete. I dare say that he won't be able to add much to any written communication of the committee over and above that which he already stated orally.

General ITSCHNER. That is correct, Mr. Chairman.

Mr. DAVIS. In any event, Mr. Baldwin, the Corps of Engineers as have all other agencies been requested to file a statement.

Mr. BALDWIN. The transcript only goes to those people whose names are in it. It is my observation that only those of us who ask questions get a copy of the transcript until it is printed.

Mr. MCFALL. I think perhaps if the staff would just order a few extra copies of General Itschner's testimony, it would save some of us who did not hear it and would like to go over it again.

Mr. BALDWIN. My only purpose is to make sure that every member of the committee has a chance to have before him and study the recommendation of the Corps of Engineers.

Mr. MCFALL. Don't you think the staff could take his testimony and make it available to everyone——

Mr. BALDWIN. It is all right as far as I am concerned, so long as every member of the committee has it before them.

Mr. DAVIS. We will take care of it.

Mr. BALDWIN. On page 4, section 5(b) starts out and defines a whole series of purposes, contributing benefits relating to these projects. You mention flood control, conservation, storage, navigation, reclamation, domestic and municipal industrial water supply and so forth.

All of these features are to be taken into consideration in determining the benefit-to-cost ratio. Would you care to comment as to what change, if any, this description would make as compared to what you now take into consideration in determining benefit-to-cost ratios?

General ITSCHNER. These provisions of H.R. 8 would really make no appreciable change. I should say no change in our current methods

of analyzing projects. It is true that in the past we have not endeavored to assess a monetary value for recreation and often we have not included fish and wildlife development because projects are generally justified by a sufficient margin so that those benefits do not have to be considered.

Also because of the difficulty of assessing a monetary value to such intangible things as recreation and fish and wildlife. But we have recently adopted the policy of trying to give recreation a monetary value.

Mr. BALDWIN. Do I understand correctly that this is simply mainly a codification in law of what your present administrative practice is, but has not necessarily up to now been spelled out in any law?

General ITSCHNER. It amounts to that, yes, sir. It really would not be a change from our present practice.

Mr. BALDWIN. The second question I have is: On page 8, subsection (3) of section 7, there is a description as to how the benefits relative to power would be computed.

You have made a comment relative to a somewhat similar description down on page 6, subsection 3, that the incremental cost should not be used.

Do you have any specific comments on subsection (3) on page 8? Is that something that you feel is proper in its present form, or do you feel that should likewise be modified?

General ITSCHNER. I feel that that section on page 8, subsection 3, is in accord with the practices that we now use, and therefore I have no suggestion to make as to how it should be changed.

Mr. BALDWIN. So that your comments on power determination are primarily applicable to section 6, and the subsections under that?

General ITSCHNER. Yes; particularly subsection 3 under section 6 which I commented on.

Mr. BALDWIN. Do you have any comments relative to the provision relative to the determination of rate of interest as far as the Corps of Engineers is concerned, at the bottom of page 9?

This 15-year provision?

General ITSCHNER. We have no objection to the method of averaging out the interest over a period of 15 years. It seems to me that would be an appropriate method of determining the interest rates.

Mr. BALDWIN. When you say you do not use that at the present time, that means that this would be a new deviation as far as the specific formula which has been used up to the present time.

General ITSCHNER. Yes, sir; it would be a more detailed delineation of a method than we now have. At the present time we get our interest rates from the Bureau of the Budget. We ask them what interest rates to use and that is the interest rate we use in our determinations.

Mr. BALDWIN. Mr. Chairman, could I ask one question?

When the staff yesterday said they would proceed to request comments from all interested agencies, it seems to me—maybe they have already done this—that the Treasury Department should be asked for a comment on this 15-year provision.

Has the Treasury Department been asked for a comment on it?

Mr. DAVIS. I do not know. We might as well take the whole Federal establishment and ask all of them, one right after the other, State Department, Attorney General, Commerce, and Agriculture. We might as well ask them all, and Labor, trying to be cooperative, you

might as well take the whole Federal establishment and ask them all to write a letter about it.

Mr. BALDWIN. I think it is a valid question that I have asked, Mr. Chairman, of the Secretary of the Treasury, because this is a specific provision on a 15-year period. The question came up yesterday on the short-term obligations that are issued and redeemed within 15 years. The witness then on the stand was not able to answer it.

Mr. DAVIS. I will ask the staff to do that. I thought we started on line 21, page 4. We said yesterday we will try to determine from all of the different departments, engineers, conservation storage, navigation, electric power, Federal Power Commission, reclamation, industrial water supply, recreation, wildlife, fish and wildlife.

We might as well get them all. I think everybody believes that some sort of a bill along this line should be passed by the Congress.

The Chair suggests that we have a thorough hearing, but I hope we do not prolong this thing unduly. I am perfectly willing to ask everybody to give us a letter.

Mr. SCHERER. It is the usual procedure.

Mr. DAVIS. You keep on adding and adding.

Mr. SCHERER. If it is necessary, it should be added.

Mr. DAVIS. All right. We will stay here until Christmas.

Mr. BALDWIN. Mr. Chairman, I believe I have not made any unreasonable request of the chairman on reports. It just struck me that when the witness was not able to answer the question yesterday as to the impact of the short-term obligations that were issued, how they would apply to this, that it is a fair request to simply ask if the Treasury Department has been invited.

Mr. DAVIS. Ask the Treasury Department, or if any others come up in these proceedings, we will ask other departments, as they arise. The staff up to this point has asked the General Accounting Office, Army, Interior, Treasury—they have asked the Treasury—Budget Bureau, Federal Power Commission, Agriculture, Health, Education, and Welfare, the Tennessee Valley Authority.

Mr. BALDWIN. That answers my question.

Mr. DAVIS. All right, sir.

Mr. MUMMA. Mr. Baldwin, will you yield?

Mr. BALDWIN. I am through.

Mr. DAVIS. Mr. Robison?

Mr. ROBISON. I will yield.

Mr. DAVIS. Mr. Mumma?

Mr. MUMMA. Is the wording in there, Mr. Baldwin, "forming a part of the public debt," those obligations that have been paid off are no longer a part of the public debt.

Does that solve your problem?

Mr. BALDWIN. I do not know. The witness yesterday on the stand was not able to answer the question.

Mr. MUMMA. I have been wondering about this 15 years. So that may be the reason for wanting to get the cheapest possible money that we can. They take it back 15 years maybe rather than 10.

Mr. SMITH. Will the gentleman yield?

Mr. MUMMA. Yes.

Mr. SMITH. This bill would be applicable some time in the future.

It will result in increased costs. Conceivably the money may go down. Conceivably it might. If you want cheaper money you might say intermediate costs should be in the bill.

Mr. MUMMA. That would be an average.

Mr. BALDWIN. Would the gentleman yield?

I do not take any position on this. All I felt was the desire to get information. I think that has been answered by the chairman's statement that the Treasury has been asked.

Mr. MUMMA. May I ask another question?

In this discussion of the length of time, this does not provide for any steamplants, I know. But when you approve some of these questionable projects in a bunch, it may be that those that are not approvable will become steamplants as TVA worked out. The steam boiler is the weakest part of the depreciation. What would you estimate the life of the boiler to be? Twenty-five percent?

General ITSCHNER. I think the life of a boiler certainly is very limited.

Mr. MUMMA. What about the Treasury Department?

General ITSCHNER. The life of the boiler may be assumed to be anywhere from 14 to 25 years. That is the length of service given in the bulletin F of the Treasury Department for depreciation purposes.

Mr. MUMMA. I think 15 years is enough on the whole. That is my experience. I grew up around some of these electric plants, when they were building new ones or improvements.

When you see what they have for boilers, they are way out of date. Powdered coal was not used for fuel 15 years ago. Today every steamplant has powdered coal. Of course a lot of them burn oil.

General ITSCHNER. I think there is no question, Mr. Mumma, that a steamplant has a considerably shorter life than a hydroplant, and particularly a dam.

Mr. MUMMA. Thank you.

Mr. DAVIS. Are there any further questions?

Mr. MACK. Mr. Chairman?

Mr. DAVIS. Mr. Mack.

Mr. MACK. Just two short questions of the General.

Has the Army Engineers ever made a study of the total amount of power generated by hydroelectricity in the United States?

General ITSCHNER. Yes, sir; we have obtained that information.

Mr. MACK. Have you made any study of the potential that could be developed if all projects were developed?

General ITSCHNER. The Federal Power Commission has made a comprehensive study to determine the overall hydro potential in the United States. We have done it in particular basins.

Mr. MACK. Then the Federal Power Commission could supply us with the figures on the total?

General ITSCHNER. Yes, sir. We could get them for you if you would like.

Mr. MACK. Would you supply those for the record?

General ITSCHNER. Yes, sir.

(The information requested follows:)

The potential hydroelectric power resources of the United States have been estimated at about 118.1 million kilowatts with a corresponding average annual generation of 509.9 billion kilowatt-hours. As of January 1, 1959, about 30.1

million kilowatts of generating capacity were installed, and 143.6 billion kilowatt-hours were generated during 1958.

Mr. MACK. Under this legislation a special criteria is provided for the assessment of the cost of power for multiple-purpose projects. Does the assessing of cost of industrial and domestic water supply remain under the old formula under this legislation and the power go under the new formula?

General ITSCHNER. Yes, sir, I would assume from reading the bill that the allocation of cost to domestic and industrial water supply would remain under the old formula. But I must modify that to say that inasmuch as power in a multiple-purpose project would, according to this bill, receive only the incremental cost, that would mean that the water supply for domestic use or industrial use or any other use would therefore have to bear a larger share of the cost than they would under the old formula.

Mr. MACK. I ask that question for the reason that I believe that the committee should give consideration to placing domestic and industrial water under the same formula as power, for the reason that domestic and industrial water go to local communities the same as power does.

That is all, Mr. Chairman.

Mr. DAVIS. Mr. Edmondson?

Mr. EDMONDSON. General, I think your very able assistant has before him a table that was part of the statement submitted yesterday by Charles A. Robinson, Jr., and it was taken from the memorandum of the chairman to the members of the Senate Committee on Interior and Insular Affairs and Insular Works, January 24, 1957. It lists 22 pretty well known projects across the country, with the comparison of the project cost allocated to hydroelectric power according to allocation methods used for each of these 22 projects under several different allocation methods.

I just want to ask for your comment upon the fact that of the methods that are listed there, the three methods that were agreed to as acceptable in the memorandum that is part of or result of revised circular A–47, the three methods agreed to as acceptable by the administrative agencies, separable costs-remaining benefits, alternative justifiable expenditure, and the use of facilities method, are the three methods that result in the highest allocation of costs to power.

I would just like your comments upon that general effect of the agreement, whether that is just a coincidence or whether you feel that it can be justified soundly from the standpoint of power development in the United States.

General ITSCHNER. Mr. Edmondson, we feel that the difference shown in this table of about 11 percent, between let's say the separable costs-remaining benefits method of cost allocation and the incremental method, is about in line with what we have found in our analysis of a number of projects.

We came out with a difference of about 10 percent, which is very close to what we have here.

We feel that it is quite proper that power as well as all other purposes pays its share of the joint costs of a project. By the joint costs I mean the cost of a dam or reservoir, or any other part of the project, that serves more than one purpose.

By the incremental method, in effect, they do not.

Mr. EDMONDSON. Do you feel that the percentage that is attached to, or is allocated to power, in most of these 22 projects under the separable costs-remaining benefits method, represents the true cost of the power facilities going into the dam?

General ITSCHNER. Yes, I do, very definitely feel that the separable costs-remaining benefits method is the most logical method for determining the equitable share of costs that should be borne by each purpose.

There may be a number of differet methods of determining how much of the joint costs should be paid by the various purposes. We think the separable costs-remaining benefits method is the best for determining the shares of the joint costs. In any case we feel it is essential that every purpose pay a proper share of the joint costs.

Mr. EDMONDSON. In these 22 projects that are listed on the chart, can you tell me whether in the authorization and construction of those 22 projects the principle of taxes forgone entered into any one of those 22 at the time they were authorized for construction?

General ITSCHNER. The principle of taxes forgone is applicable to the justification of a project to determine whether it is justified on a benefit-cost ratio. In no project have we ever included the value of taxes forgone, or taxes, in a cost allocation.

Mr. EDMONDSON. You never have?

General ITSCHNER. Never have; no, sir.

Mr. EDMONDSON. You have never included that in determining whether power is justified——

General ITSCHNER. Yes; we do that. For justification purposes we have in recent years.

Mr. EDMONDSON. In the justification of the power that went into these 22 dams, did the principle of taxes forgone enter into justification on any of those 22?

General ITSCHNER. I am sure it did, and the more recent ones, sir. I will have to go down the list and try to determine which ones.

There is some question in our mind about The Dalles. That is probably the only one that might be.

Mr. EDMONDSON. In the great majority of these projects unquestionably it did not enter into the justification at all?

General ITSCHNER. That is correct.

Mr. EDMONDSON. If it had entered into the justification on these 22 projects, do you think we would have had most of these projects constructed?

General ITSCHNER. I would have some doubt about Oahe, sir. The rest of them I don't think it would have been affected.

It is difficult for me to say without seeing what the benefit-cost ratios were.

Mr. EDMONDSON. In those 22 do you see any of them listed on the 22 that in your opinion have the useful life or would have a useful life of less than 100 years?

General ITSCHNER. I am sure that all of the dams here would have a useful life of over 100 years, probably several hundred years. There might be some question about the obsolescence of the powerhouse features of the projects in 100 years. With technological advances there might be serious doubts about that feature.

Mr. MUMMA. Will the gentleman yield?

Mr. EDMONDSON. Yes.

Mr. MUMMA. Isn't there a factor which has to be considered, the deposit behind the dam? What is the estimated life of the Hoover Dam, when the Colorado has filled up?

General ITSCHNER. I can't answer that question because Hoover Dam is not one of our projects. It is true that in all reservoirs we provide for siltation. The amount varies very greatly with the nature of the soil upstream and the velocity of the river.

Mr. MUMMA. Wouldn't that sort of eliminate this 100- or 200-year question that you are giving a lot of credence right now?

General ITSCHNER. I think there are very few projects on this list where siltation would cause any appreciable reduction——

Mr. MUMMA. What is the estimate of Hoover Dam? I was there. If you look at it from an airplane you can see where it is not pronounced.

General ITSCHNER. I am sorry, I don't know what it is for Hoover Dam.

Mr. EDMONDSON. General, we heard the head of the Southwestern Power Administration, Douglas Wright, testify several years ago that it wouldn't be unreasonable to say that the average life of a multiple-purpose project in the Southwest would be in excess of 500 years. Do you have any quarrel with that statement?

General ITSCHNER. I wouldn't have any quarrel with that statement on an average basis. Projects such as those on the White River, where siltation is very small, will have an extremely great life. I would say much more than 500 years, as far as silting up is concerned. Projects such as Denison will silt up much earlier.

Even so they will always have a partial usefulness. Certainly it will be a long time before there is any problem there. I have always felt personally that siltation might some day be a great asset. Then that silt can be mined, if you like, and used profitably for agricultural purposes. So I don't think it is a serious problem.

Mr. EDMONDSON. Thank you very much, General.

Mr. DAVIS. Are there any other questions?

If not, thank you very, very much, General.

We are delighted to have Senator Kerr with us this morning. Senator, will you take your place. The Senator will take charge of the situation, I guarantee.

STATEMENT OF HON. ROBERT S. KERR, A U.S. SENATOR FROM THE STATE OF OKLAHOMA

Senator KERR. Thank you, Mr. Chairman. You are very generous. I want to say that I feel very humble in the presence of this committee. I am aware of its great record.

I have had an opportunity of sitting here on many historical occasions, to me. I will never forget the hours I spent here in 1946 when a group of us were here seeking the authorization of the Greater Arkansas River development program.

I will tell you that when this committee reported that project out and handled it so magnificently on the floor, they gained my eternal respect and gratitude.

That feeling has been augmented and enhanced through the years that I have had the opportunity to be acquainted with and work with this committee.

I have introduced an identical bill to H.R. 8 in the Senate, and have been joined by eight of my colleagues. I believe this is good legislation.

I believe its enactment is necessary to the full development of our water resources. I believe it is in line with the adopted policy of the Congress, to secure the optimum benefit from water projects for all the people.

I believe it reinforces the "preference clause" found in many existing laws.

I believe it makes possible the fulfillment of section 5 of the 1944 Flood Control Act and many, many other congressional policy statements found in the following language:

* * * to encourage the most widespread use thereof (electric power and energy generated at Federal reservoir projects) at the lowest possible rates * * *.

Mr. Chairman, you may recall that on February 27, 1956, I presided over a joint meeting of the Interior and Insular Affairs Committees of both the House and the Senate, and the Public Works Committees of both Houses, to investigate the power rates of the Southwestern Power Administration.

You will recall that the Assistant Secretary of Interior had prepared to file with the Federal Power Commission a proposed increased in the power rate structure of SPA of 40 percent. The four chairmen of the above committees jointly asked him to withhold such a rate increase request, in order that the situation could be investigated.

If my memory serves me correctly, hearings were held for 7 or 8 days. Many witnesses appeared before the commitees. The Department of Interior, the Federal Power Commission, and the Southwestern Power Administration were witnesses. We went into the contracts of the Government with their electric customers; industries, cities, rural electric cooperatives, and utility companies. We sought to find why the proposed rate increase was being made.

Primarily, we discovered:

First, Budget Circular A–47 to be the basic criteria for the rate change. I want to say it struck me at that time as rather weird that all of the economic considerations which had controlled and brought about the existing rate structure as a result of actions of the Congress and of the agencies, operating laws of the Congress could be suddenly brushed aside, as it were, with a sledge hammer or a magic wand, and provisions in an Executive order substituted and made controlling to determine the power rates of people who were receiving them without exception under the mandate of Congress which included these words: "* * * to encourage the most widespread use thereof at the lowest possible rates * * *."

The second element that we found of influence in connection with that proposed rate increase in the power rates in the Southwestern Power Administration jurisdiction was the subsidy to private users through the "aluminum" contract to be accountable for most of the purported need for increase in rates.

We found ourselves in the rather amazing situation of where an agency of the Government had given a long-term unchangeable contract to a private user, aluminum corporation, of power at a fixed rate, not subject to change, the effect of which was to cause or force or persuade the Southwestern Power Administration to look around and

find others who had contracts for the use of their power but who were not protected by contract for a term of years at a fixed rate.

And so in order to make the Government hold on what it said it would be losing in carrying out its contract with the aluminum corporation, it found it necessary to increase the rates to the preference customers—the rural electric cooperatives and the municipalities owning their own distribution systems.

Third, disregard for former cost allocations, based on what was believed to be the intent of Congress.

Fourth, disregard for the "widespread use—lowest cost" policy often restatead in congressional acts.

Fifth, disregard for the basis used in REA loans to local co-ops as far as rates for power and amortization schedules were concerned.

While the REA co-ops did not have a long-term contract for power at a fixed rate as did the aluminum corporation, they had requested loans from the Rural Administration for the building and expanding of their facilities to the farm people on the basis of a rate structure in effect at the time, and the Federal agency, in accordance with the mandate of the Congress, was making them the loans and the payment basis, and the economic forecast of these rural electric cooperatives was founded on the rates which they received from the Southwestern Power Administration at the time.

Their whole economic structure was based on those rates; their ability to repay the Government their loans was determined on the basis of whether or not those rates and their continuity were valid.

Mr. Chairman, those hearings convinced me of the necessity of the passage of the Trimble bill. And, may I say, in order that I may not be accused of partisan politics—which I must say is an accusation often made and seldom unjustified—however, in that situation I learned that the culprit caught and exposed in the act is Budget Circular A–47, which, I understand, was spawned by a Democratic Budget Bureau and brought to full bloom and power by a Republican Budget Bureau. If there ever was an offspring of two unworthy parents, A–47 is it.

Two specific areas must be corrected: (1) The amortization period for power portions of projects and (2) cost allocation procedure.

May I speak to each?

Why should a Federal powerplant in a dam be amortized in 50 years? Its useful life is much more than that. We require that, in addition to a complete repayment of principal, with interest, operation and maintenance costs.

There are two or three things that differentiate this either from a printing press or a boiler, or any other piece of property owned by a private individual and depreciated by that individual taxpayer in order that the investment might be recovered and available for future growth and development.

All of the facilities paid for by the power users in these hydroelectric projects belong to the Government when they start; the cost of them is repaid with interest by the power users, after which they continue to belong to the Government, obsolete or not.

And there is this fact to be remembered there: The maintenance of these projects eliminates their obsolescence. I will illustrate it.

I belong to an outfit that owns a B–47 or a DC–3 airplane. It was bought 12 years ago. The cost of it has been completely amortized.

Its maintenance has been expensive. Yet it is a much more modern airplane today than it was when it was purchased 12 years ago.

I asked my pilot a little while back, "How long do you think this airplane will be a useful utensil?" He said, "Actually our discussing that is purely academic because it will be a useful utensil far beyond the time you and I will be around to use it."

Mr. SCHERER. Would it if it had to compete with a more modern plane?

Senator KERR. What do you think it is doing? It is not isolated from any other plane.

Mr. SCHERER. I say if it had to compete.

For instance, if it was used by the armed services, if it had to compete with modern jets.

Senator KERR. They are still using DC–3s.

Mr. MUMMA. Not to fly across the ocean.

Senator KERR. No, not to fly across the ocean. You don't use bacon to fly across the ocean, but you need it.

Mr. MUMMA. You are picking out an exception to the rule with a DC–3.

Senator KERR. I am, but so is the hydroelectric facility. Go anywhere you want, in any multiple-purpose project in our country—has our great Chief of Engineers left here?

Is there anybody here from that agency?

It is not a fact that in the operation of these facilities the maintenance keeps them current as usable utensils?

Mr. PAGE. It includes the major replacements that are necessary.

Senator KERR. As anything is worn out or becomes unusable, it is eliminated?

Mr. PAGE. It is replaced.

Senator KERR. It is replaced?

Mr. PAGE. Yes, sir.

Senator KERR. Just like it is in that DC–3.

Mr. MUMMA. Would you class some modern turbine, with two or three stages, with the engines used to turn a wheel with a belt?

Senator KERR. No; I wouldn't, but would you tell me which one of these multiple-purpose projects has that old gadget that turns with a belt?

Mr. MUMMA. I am not thoroughly acquainted with it.

Senator KERR. Well, not thoroughly acquainted; but I am sure you have some acquaintance, and on the basis of that would you tell me where one of them is in operation?

Mr. MUMMA. I admit that I don't know that.

Senator KERR. There is a man here who does know. Do any of those facilities have any of that kind of gadget in them?

Mr. PAGE. I didn't hear the question.

Senator KERR. He described a generating facility. How did you describe it?

Mr. MUMMA. Does Morgan Smith make a lot of these generators?

Senator KERR. I am talking about the one you described.

Mr. MUMMA. Wait a minute. They make a lot of generators and they are certainly making a different type than they made 25 or 30 years ago. They used to call them water wheels. Now they are all turbines.

Senator KERR. The water wheels run with a belt; is that what you are talking about?

Mr. MUMMA. No; a steamplant.

Senator KERR. I am not talking about a steamplant.

Mr. MUMMA. They could be developing a steamplant.

Senator KERR. I heard you ask that question a moment ago. That was an interesting conjecture. I would like to have you explain to me, just in second-grade language that I can understand, how a hydroelectric project becomes a steamplant.

Mr. MUMMA. How did it happen in the Tennessee Valley?

Senator KERR. It didn't

Mr. MUMMA. Because they didn't have enough water to take care of a steady load.

Senator KERR. It didn't. There is not a hydroelectric project on this earth that has ever been changed into a steam generating plant.

Mr. SCHERER. He didn't mean that, obviously.

Senator KERR. I would say the man is capable of saying what he means. I submit that he doesn't need your assistance. If you are going to help anybody, help me. I am the witness.

Mr. SCHERER. I understood what he meant.

Mr. MUMMA. I will stand my ground.

Senator KERR. While you are standing it, I wish you would tell me which one of these hydroelectric projects has become a steamplant.

Mr. MUMMA. What is the word they use? They amplify it. They didn't have enough water on the Cooper River, or whichever it was.

Senator KERR. On what?

Mr. MUMMA. Isn't it the Cooper River in Tennessee? The first hydroelectric plant. They had their eyes bigger than their stomach.

Senator KERR. The plant?

Mr. MUMMA. TVA.

Senator KERR. TVA didn't build the first plant down there. It wasn't in existence when they built the Wilson Dam.

Mr. MUMMA. Alcoa took it over.

Senator KERR. No, they tried to. Thank God they failed.

Mr. MUMMA. You are straddling the point. The point is that they needed more power for the customers and they had to provide it with a steamplant.

Senator KERR. That did not affect the utility or usefulness of the hydroelectric facility.

Mr. MUMMA. The plant or territory could not have expanded unless they built those steamplants.

Senator KERR. You mean the service could not have increased in the area?

Mr. MUMMA. That is right. They did not have enough water flow.

Senator KERR. They did not have enough hydroelectric facilities, that is true.

Mr. MUMMA. We have three dams in the Susquehanna River and they all have steamplants.

Senator KERR. You mean there are steamplants available?

Mr. MUMMA. In conjunction with hydro.

Senator KERR. To firm up the power?

Mr. MUMMA. Firm up, that is the word.

Senator KERR. That does not decrease the value of the hydroelectric power.

Mr. MUMMA. But it is an item you have to depreciate.

Senator KERR. No, no; it is just the opposite.

Mr. MUMMA. It has turbines and boilers if necessary.

Senator KERR. You do not depreciate a hydroelectric facility that produces peaking power.

Mr. MUMMA. Produces what?

Senator KERR. Peaking power.

Mr. MUMMA. You mean top load?

Senator KERR. No. Here is what I mean—how much time do I have, Mr. Chairman?

Mr. DAVIS. Take your time.

Senator KERR. This is very interesting. I congratulate this gentleman, Mr. Mumma, on his curiosity. I do.

Mr. MUMMA. Could you include "slight knowledge"?

Senator KERR. You have far more knowledge than I have.

Mr. MUMMA. Don't make me invidious by comparison.

Senator KERR. Let's go down and look at that area.

Mr. MUMMA. I have never been there.

Senator KERR. Let me explain the term "peaking power."

Mr. Chairman, it is a very pertinent thing in this picture. Whether it is a private utility or a government-owned corporation furnishing power, they have what is regarded as a steady load.

Mr. MUMMA. We hope they have.

Senator KERR. They do, if they don't have but one customer, and if all he has is one residence and the only thing running is the pilot light under his hot water tank.

Mr. MUMMA. With electricity you don't have pilot lights.

Senator KERR. No; electricity does not. But I will tell you right now if you have not got the electricty you will get into trouble there. The steady load is that which they use 24 hours a day. There are certain times in the day when they have to have more electric power. If they had to build the steam power or the steam generating facilities, to take care of their highest load factor—and any utility has to meet that highest load factor to be efficient as a servant for the area—it would mean that for the capacity used in meeting the peak load actually it would cost just as much as though it were used 24 hours a day to build. But since they only would use it, say, 6 hours a day, the amortization cost applicable to that part of their generating facilities furnishing that peaking load would have to be much higher than would be the factor applicable to that part of their investment that was busy 24 hours a day.

Actually hydroelectric power in our country, the southwestern part of the Nation, and in fact most of the Nation except where the distinguished Congressman is from, I guess the only part of this country—the Tennessee Valley is far more capable of maintaining steady power with their hydroelectric facility than the Southwest is, but the whole country is not so fortunate as the one the Congressman comes from, where they have the power to maintain a steady load, a steady supply.

But by the use of hydroelectric power, say 6 hours a day, to augment the steam power being generated for 24 hours a day, you eliminate the necessity for the investment in that generating facility for the steam power to provide the peak load and that actually means that the peaking power is of greater value per kilowatt-hour than is the steady power.

But too often the Government has found itself unable to do other than to sell this very valuable hydroelectric power as dump power, or as power which they sell at a lower rate actually than the steady power.

Mr. MUMMA. It all has to be included in the cost.

Senator KERR. That is very true. But in looking at it fairly—and I know that is what you want to do, and that is all that I want to do—in looking at it fairly the way they maintain these hydroelectric facilities—I do not say they won't have better ones 50 years from now; I do not say they won't have better ones——

Mr. MUMMA. That is my point.

Senator KERR (continuing). They will have this facility which the people have paid for who use the power; the Government will still own it, and it will still be just as efficient a generating facility as it was the day you put it in there.

Mr. MUMMA. I cannot agree with that. These new machines get the cost down.

Senator KERR. I did not say it would be as good as one then installed would be. I said it would be just as good as it was the day it was installed.

Mr. MUMMA. Just one more statement. You know this peakload business is a very good argument. There is lots of room to argue. I might say that the Florida Light & Power Co., in Miami, they asked their patrons not to use these electric heaters in the wintertime, to use gas, and natural gas is coming in there, because the power company on its own cannot afford to build the facilities it needs for the peakload.

Senator KERR. It cannot afford to build a facility that costs just as much as if they were going to use it 12 months of the year and only use it 3 months.

Mr. MUMMA. Isn't that DC–3 charged off?

Senator KERR. Yes. I told you that when I made my statement. Completely. Didn't I say that in my statement? Not only the initial cost completely charged off, but the maintenance and the replacement has all been charged off.

Mr. MUMMA. Where your depreciation is one-eighth of bookkeeping, and your repairs are another item.

Senator KERR. But they are both expense items.

Mr. MUMMA. They are deductible.

Senator KERR. They are deductible; that is right. And actually that is what determines the rate of chargeoff, not the useful life of the project, Mr. Mumma.

Mr. MUMMA. That might be the case. Go ahead.

Senator KERR. You see the Army Engineers are not confronted with that problem.

Mr. MUMMA. Uncle Sam puts the money up.

Senator KERR. They would just as well charge theirs off over the useful life of the project because they do not get any deduction on their income taxes anyway. Isn't that right?

Mr. MUMMA. We have had a nice argument.

Senator KERR. I thank you a lot.

Mr. MUMMA. It was a pertinent question. That interested me.

Senator KERR. Let's you and I take that little inspection trip.

Mr. MUMMA. In the DC–3?

Senator KERR. Yes; I will take you in the DC–3. I was discussing the question, Mr. Chairman, of why should a Federal powerplant be amortized in 50 years.

A project under this procedure is just as good after 50 years' operation as after 10. The revenue it produces is just as much. Actually, in the interest payment alone, it is making the Government whole.

In reality a 50-year amortization period makes it necessary for the power users to pay for the project twice in that time because, in addition to the capital investment with interest, you also "replace" it in replacement costs.

Therefore, I am in favor of the provision of "the useful life of the project."

Let me speak about interest requirement—like A–47—based on Executive decree, not legislation.

The interest factor that is being talked about here, unless I am mistaken—and if I am I would hope that somebody would correct me—also came into being by Executive decree just like A–47. This bill before you provides interest factor to be put into rate structure. I would like for some of you gentlemen to tell me the legal basis for the interest factor in the present rate structure. I have looked for it in vain in the law and have not found it. In my judgment, if H.R. 8 is passed, providing an interest factor and rate structure, it will be in existence on the basis of a legal provision for the first time.

They are charging interest now by Executive decree, on the basis of what I have been able to find. And I think that is an interesting fact, Mr. Chairman. I think it would be wonderful if the interest factor in the rate structure would receive the benefit of action by the Congress.

It would be just like the old man and the old woman who lived together for 40 years and raised a family and finally he validated the deal and went down and got married. I think it was wonderful.

Now to cost allocation. I, of course, am more familiar with the history and operating policies of the Southwestern Power Administration than with similar power-marketing agencies in other portions of the country. I know, however, that the complex problems which have plagued the Congress with respect to allocation of costs in the construction of multiple-purpose projects and the establishment of equitable rate for the sale of power from these projects are common in many other areas of the country.

The expenditure of Federal funds for multiple-purpose development, wherever it may occur, must be based upon resource-development theories designed to stimulate our economy and preclude monopolization of the beneficial results by a few big corporations.

The real purpose is flood control in our country. That is the real basis for the authorization in building these projects.

The section of the country in which the Southwestern Power Administration operates, has been historically an area of erratic streamflow, with consequent periodic seasonal floods and droughts. The original concept of a series of coordinated river-basin development programs envisioned primarily a stabilization of waterflow and the elimination of the ruinous destruction of our economy brought about by the floods.

Two of the initial large Federal dams in the Southwest—Norfork Dam on the White River, and Denison Dam on the Red River—were

both initially conceived as basically flood-control projects. In the case of Norfork, the power feature was not even authorized until 2 years after the initial authorization of the project for flood control.

The authorizing legislation of these two projects provided that the allocation of construction costs among the purposes for which the project was authorized should proceed on an incremental basis with flood control basic. This means that the cost allocated to the power features of the projects would be only the difference between the total cost of the entire project without power and the total cost of the project with power installed.

At the time everyone thought that this was an equitable method of cost allocation for these projects and to this day no complaint has been voiced with respect to the cost-allocation policies enunciated by Congress as applicable to the Denison and Norfork Dams.

In June and July of 1947, the House Committee on Public Works heard testimony on H.R. 3036, 80th Congress, 1st session, legislation which would have transferred from the Secretary of the Interior to the Secretary of War authority to market hydroelectric power generated at multiple-purpose projects.

During these hearings, Col. P. A. Feringa, Assistant Chief of Engineers for Civil Works, in testifying before the House Committee on Public Works stated, with respect to hydroelectric projects in the Southwest:

> I think, Mr. Trimble, if I may interrupt, I should point out that we are a construction agency. Our duty, which Congress has given us, is the building of river and harbor improvements and flood-control works. Another duty we have also given to us by Congress is to consider the benefits of all water uses when we make a report for a river basin. That principle has been repeatedly stated in various laws, especially since 1928 when we were directed by Congress to prepare the 308 reports covering navigation, power development, flood control, and irrigation.
>
> So, therefore, we are the construction agency for multiple-purpose reservoirs, along with other agencies too, of course, and we consider power as a welcome byproduct of our projects, but it is not the dog; it is the tail.
>
> Mr. TRIMBLE. It is incidental?
>
> Colonel FERINGA. Yes, sir. * * *
>
> Colonel FERINGA. To my mind the key of flood control is that any dam built for flood control must be operated for flood control, and anything else is a byproduct.
>
> The CHAIRMAN. Navigation enters into this also.
>
> Colonel FERINGA. If the dam is for navigation and is built for that purpose and also for power, then navigation becomes the key and power becomes a byproduct.

Mr. E. Robert DeLuccia, Chief, Bureau of Power, Federal Power Commission, testifying before the same committee—I know you are aware of the fact that it is this great committee I am referring to—stated:

> In connection with construction of flood control dams or dams for other purposes, power is developed as an incident to these principal purposes and we then have the problem of how to dispose of that power.
>
> In our reports, visualizing the use of power which is incidental to flood control or navigation, or other purposes, we envision they will be used with the existing facilities of the area.

The U.S. Supreme Court has also considered the problem of cost allocation at multiple-purpose projects. In disposing of an attack upon the constitutionality of the act of June 28, 1938, authorizing con-

struction of the Denison Reservoir, Mr. Justice Douglas, delivering the opinion of the Court, stated, in part:

> In this connection, the definite project states that the "amount of storage which can be economically allocated to the production of power depends on the ability of the power market to absorb the power during the useful life of the project." But the division engineer observed that "in actual operation of the dual-purpose project this cheap storage would be dedicated to flood control whereas in the financial setup it is credited to power." * * * They demonstrate that in operation of the dam the several functions will be interdependent and that the conflicts between the respective requirements of flood control and power development are here more apparent than real. They show that this is nonetheless a flood control project which will "fully control the maximum flood of record," though power, it is hoped, will pay the way.

That is the end of the quote from the Supreme Court decision.

Pursuant to the expressed opinion of the Corps of Engineers as to the incidental nature of the power benefits produced at these multiple-purpose projects, and pursuant to the policy established by Congress in authorizing Denison and Norfolk Dams on an incremental cost allocation basis, flood control basic, the Southwestern Power Administration, in its cost allocation report of March 1953, stated:

> In the opinion of this Administration, since the power facilities have been included in this comprehensive flood control program as an incidental purpose or as a byproduct, it is believed that a byproduct method of accounting should be employed in determining the cost of these power facilities. Therefore, this Administration recommends that the investment cost on these other seven projects be determined by use of the incremental flood control basic method of allocation.
>
> This Administration's recommendation is supported by the report of the Jones subcommittee, 82d Congress, 2d session, House Committee Print 23. In the discussion on the merits of the separable costs-remaining benefits methods on page 29, they state: "As an important exception, however, the history of those projects already authorized must be considered, for that history may indicate that it would be unreasonable to use this particular method." This exception appears to be tailored to those projects on the Arkansas, White, and Red Rivers that were included in the comprehensive flood control program as outlined by Committee Document 1, 75th Congress, 1st session, or that have been included therein by amendment.

That is the end of the recommendation of the Southwestern Power Administration.

A BASIC CHANGE IN COST ALLOCATION

I believe it is clear, therefore, that up until very recently the Congress and the administrative agencies of the executive branch are clearly on record in support of the incremental doctrine with respect to multiple-purpose project cost allocation, especially those projects in the Southwest.

The basic purpose of the project is flood control, and the power benefits that are derived from the project, although substantial, are nonetheless, for purposes of cost allocation, to be considered as a by-product or incidental purpose of the project.

Despite this well-established doctrine of supporting the incremental method of cost allocation at these multiple-purpose projects, the Department of the Interior, the Department of the Army, and the Federal Power Commission, on March 12, 1954, reversed themselves and jointly agreed that the most acceptable theory for the allocation of costs at multiple-purpose projects should thereafter be the separate costs-remaining benefits method and that is just a highly technical designation to increase the cost of the power to the preferential customers, the REA's and the municipalities, and I am going to make

this observation, Mr. Chairman. There is not a man on this committee, on either side, but knows the origin of that finding by these three executive agencies.

There is not a man here that believes that that finding was generated within the hearts and minds of the members of those agencies that brought it forth.

Of the three methods announced as acceptable to the joint interagency committee, the incremental method was not even mentioned. Under the separable cost-remaining benefits method of cost allocation, the theory that power is a byproduct or incidental purpose is abandoned, and the power benefits of each project must bear a proportionate share of the joint costs of the entire project.

Now, what has been the result of this basic change in cost allocation policy? First of all, with respect to seven multiple-purpose projects in the Southwest, the amount of construction costs allocated to power has risen from $122,100,000 to $200 million. The overall increase is 64 percent. This, of course, means that the per kilowatt and per kilowatt-hour cost of power from these projects goes up.

In addition, the revised cost allocation procedures result in the Corps of Engineers being forced to delete hydroelectric features from basically flood control projects in which such features were originally included and authorized.

Last year, Congress appropriated construction funds to begin work on the Oologah and Keystone Dams in Oklahoma. Hydroelectric features were authorized for these projects, but the Corps of Engineers tells us that power is not now feasible because under the new theory of cost allocation it would cost too much to sell. It seems almost unbelievable that in an area of the country where low-cost hydroelectric power is not only desirable but almost necessary to support industrial and agricultural growth, the administrative agencies of the Government decide to undertake construction of flood-control projects without hydroelectric features simply because arbitrarily selected cost allocation procedures make it appear that the inclusion of hydroelectric power would not be feasible under a Budget directive.

Therefore, if any group of administrative officers charged with responsibility for allocating construction costs among the various features of multiple-purpose projects is free it could choose whatever method is in accord with its own philosophy. However, this is not and must not be the case. Congress has heretofore fixed the policy and, if necessary, will now compel its adoption. The application of that policy results in the production of low-cost power as envisioned by the Flood Control Act of 1944, which states:

> Electric power and energy generated at reservoir projects under the control of the War Department and in the opinion of the Secretary of War not required in the operation of such projects shall be delivered to the Secretary of the Interior, who shall transmit and dispose of such power and energy in such manner as to encourage the most widespread use thereof at the lowest possible rates to consumers consistent with sound business principles, the rate schedule to become effective upon confirmation and approval by the Federal Power Commission.

Other methods could result in the allocation to power features of a disproportionately high portion of project cost. The separable costs-remaining benefits method which has been adopted by the present administration is such a method and results in the allocation to hydroelectric power features of higher proportions of construction costs

than any method traditionally utilized by any of the power marketing agencies of the Government.

The cost-allocation procedure is the policy which has been decided by the Congress. In view of the economic circumstances and needs of the people it must be followed and not subverted by an administrative agency of the Government insulated from a direct responsibility to the people.

Higher allocations mean higher rates. The arbitrary allocation of larger amounts of the construction cost of projects in the Southwest to electric power features has brought about an alleged necessity to increase the rates charged for this power.

Over in the Senate we have done the best we could. We passed what we regard as a stop-gap resolution, S. 148. We are insisting on being furnished with information in project reports sufficient in detail so that we may have an opportunity to look at projects aside and apart from the budget's infamous A–47. We know it is not sufficient but it will help until we can enact legislation such as this bill you are today holding hearings upon.

I wish you luck, gentlemen, in your deliberations on this, not only in this committee but with the great House of Representatives, and then when it comes to the Senate, and then when it takes that long, perilous danger-fraught passage to the White House. Thank you very much, Mr. Chairman.

Mr. DAVIS. Thank you, Senator. It is always refreshing to have you before this committee. You keep the attention of all of us. You have a fine mind and a great way of presenting your case.

Mr. Smith, do you have any questions?

Mr. SMITH. No questions.

Mr. DAVIS. Mr. Mack.

Mr. MACK. Senator Kerr, just one question. The effect of this legislation will be to create more favorable treatment as to power costs, the allocation of costs as to power. Would you see any objection to the inclusion of the same formula for domestic and industrial water? Industrial and domestic water serve essentially the same people and the same purposes as the power?

Senator KERR. I was impressed by your questions on that subject to thte Chief of Engineers, and I certainly agree with your position.

Mr. MACK. Thank you, Senator.

Mr. DAVIS. Mr. Scherer?

Mr. SCHERER. I have no questions.

Mr. DAVIS. Mr. Cramer?

Mr. CRAMER. I have no questions.

Mr. DAVIS. Are there any questions on this side?

Mr. Baldwin?

Mr. BALDWIN. No questions.

Mr. DAVIS. Mr. Schwengel?

Mr. SCHWENGEL. I want to commend you, Senator, for the able way in which you presented your case. I followed your record in the Senate and I am impressed with the service that you have given your people in the Congress.

They have many tax advantages, with some of which I disagree, which have to do with writeoffs such as you suggested in your discussion about the airplane. This has to do with writeoffs in another

area. We, in certain parts of the United States, are very jealous of this type of recognition by Congress in the area of taxation.

I am impressed with your presentation in this case and your interest in it. I listened intently, and I note the sense of urgency that you feel in this presentation. Also, I note that this bill was introduced on January 7, 1959, and now there seems to be some rush about it that excites my wonder.

I think I recognize this in a sense is very important legislation, and I have noted it since it has been introduced, and I have given some study and consideration to it. I think it is important and, therefore, we ought to take some time and evaluate all its implications and how it might affect all of us across the board.

Several people have indicated in testimony that this bill is not a perfect bill and needs some amendment. I note that you have agreed in certain instances that it probably needs alterations in that regard.

I have one question to put to you, because you have made it quite a point, and I was impressed with the point you made on cost allocations. I would like to ask this question, Senator: Have you made a study to compare the number of people who benefit from the power facilities of these projects, as compared to the number of people who are benefited from the flood control phase of it? Do you have any knowledge or information on that, or any comment on that point?

Senator KERR. I do not have any specific statistics on that. My judgment is that the beneficiaries in the two areas are often identical. It is quite often that the town that is permitted to be a successful preference customer might be one that is also benefited by the flood control features. Certainly that is true often of the REA members who are preferential customers for the purchase of the power. Then I visualize that the entire area is benefited either directly or indirectly because if land and property is protected from flood damage, the economy of the area proportionately benefits.

If the rural population benefit and are permitted to be more productive and more prosperous, the urban areas proportionately benefit. I would acutally feel that an effort to segregate the benefits in either of the areas, power consumption or flood control, or navigation, would bring about a tabulation of information that would show many in all groups, and everybody directly or indirectly benefited by reason of the project.

Mr. SCHWENGEL. The point I want to establish is that the people who benefit from the power facilities—and I can envision that there would be many people who would benefit from the power facilities who are not going to benefit except indirectly from the flood control benefits of a project.

Senator KERR. That is true. That is quite true.

Mr. SCHWENGEL. That being the case, there is something to be said for those who are assessing values on the power facilities, as you seem to question some in your testimony.

Senator KERR. What beneficiary of the flood control benefit pays for the flood control costs?

Mr. SCHWENGEL. I am not saying that there isn't some area of compromise.

Senator KERR. It just happens that flood control allocations are not reimbursable. The fact is that the power user and the irrigation user, and the municipal or industrial water user that Mr. Mack

refers to, are the only ones that I can think of at the moment who do pay. Do you know of any other?

Mr. SCHWENGEL. I am thinking about the cost allocation features.

Senator KERR. The cost allocation is of significance only as it affects how much money the users pay.

Mr. SCHWENGEL. Of course, we do recover from those who are benefited. We take into account in many of those projects that we do recover on flood control, to some extent.

Senator KERR. Suppose you give me an illustration of a project which has been authorized and built for flood control where the beneficiaries pay for it.

Mr. SCHWENGEL. They don't pay for it in all of them because we assess the cost based upon what is the Federal responsibility and what is the local benefits.

Senator KERR. I am talking about the individual user.

Mr. SCHWENGEL. I would have to check into that.

Senator KERR. I would say that the engineers made a lengthy search and finally found one project which they said they thought the people who primarily benefited from paid a part of.

I think you had a distinguished colleague on this committee, a great and dear friend of mine who used to sit right there, Mr. McGregor from Ohio. We had that discussion. He remembered one flood control project where the beneficiaries paid a part of it. Where you have a floodway through a municipality oftentimes the municipality pays a part of the benefits.

Mr. SCHWENGEL. You asked for examples.

Senator KERR. I would say that above 95 percent of the cost of flood control construction in this country has been nonreimbursable. It is only the power consumer, the irrigation user, and the municipal and industrial water user who pays any part of the cost directly of these great projects. In the main, they are like highways. They are built for the use and the benefit of all. But the power user at this time not only pays the cost of the power installation, but without benefit of law, without requirement of law, so far as I have been able to find, he pays interest on it. And after he has fully paid for it, it still belongs to Uncle Sam, and if he gets any power he still pays for it.

Mr. SCHWENGEL. I think all of us expect to pay for things that we get.

Senator KERR. You don't pay anything for the use of that highway out there except that you pay taxes.

Mr. SCHWENGEL. We certainly do pay for the highway, and all of us do.

Senator KERR. I say except as you pay taxes on your gasoline.

Mr. SCHWENGEL. We do pay for it. Nobody gets anything for nothing. That is a philosophy that is going around that is popular in certain areas, but it isn't true.

Senator KERR. That philosophy is kind of getting a little decrepit. It is not very vigorous.

Mr. CRAMER. Will the gentleman yield?

Isn't it true, Senator, that under this bill the Corps of Engineers and the departments involved would have to use the incremental method of determining costs here? There is no discretion involved.

Senator KERR. If it is not, then both the author of this bill and I, on the one I introduced, failed to put in what we intended.

Mr. CRAMER. It is nondiscretionary?

Senator KERR. Yes, sir.

Mr. CRAMER. The result of that would be higher nonreimbursable costs to the taxpayers in the total cost of the project.

Senator KERR. I don't think so, because under the incremental method they pay every dollar that the project cost that it wouldn't cost if the power facility wasn't in it.

Mr. CRAMER. Your allocation of cost of power as compared to other purposes, the other-purpose cost increases and the power cost decreases.

Senator KERR. But this applies to multipurpose projects.

Mr. CRAMER. That is what I am talking about.

Senator KERR. And the only time that you would have a situation where the power facility and its economic benefits would be determinative of whether or not it was justifiable for authorization—and it wouldn't be without it—is where the power user is going to pay a part of the rest of the cost. So that this formula is to apply with reference to a multipurpose project, and if implemented would result in the power user paying for every dollar that that project would cost over and above what it would cost if the power facility were not put in it.

Mr. CRAMER. I understand that. Of course, the Corps of Engineers, Department of Interior, and the Federal Power Commission have recently been using a separable costs-remaining benefits method, and this would preclude them from doing so.

Senator KERR. This sure would preclude them from doing so, and they are doing it now without authority of Congress.

Mr. CRAMER. In a multipurpose project.

Senator KERR. They are doing it now by directive of the Executive without authority of the Congress.

Mr. CRAMER. The result of requiring them to use incremental methods would be higher nonreimbursable taxpayer costs?

Senator KERR. No, sir, not a penny, except in the case where the power user is paying the taxpayer's bill.

Mr. CRAMER. There is no other conclusion you can come to?

Senator KERR. There is one I can come to. There may not be any other conclusion you can come to. But I do not put on myself a blind bridle.

Mr. CRAMER. I don't have a blind bridle on myself, either.

Senator KERR. I see something there that is preventing you from looking at it objectively.

Mr. CRAMER. I suggest, Senator, I can point to the present veto message of the rivers and harbors bill in the last session of Congress, and the session before, and the reason was the higher nonreimbursable taxpayer cost.

Senator KERR. If you point to that with pride, I doubt if there would ever be any basis of harmonious agreement that you and I could reach.

Mr. CRAMER. I do not expect you to reach harmonious agreement, but I am expected to see that the record reflects what the present situation is, what the situation would be under the bill as proposed as relates to the sharing of costs for different purposes in the multipurpose project, and the result that seems obvious is that the taxpayer nonreimbursable cost would be increased by the incremental method as compared to the present method used.

Senator KERR. A conclusion to which you are certainly entitled to subscribe if in your lack of understanding of the vagaries of it you choose to do so, but one with which I do not agree.

Mr. SCHERER. I have the same lack of understanding as Mr. Cramer.

Senator KERR. I wouldn't think it would be a source of pride.

Mr. SCHERER. It is. I associate myself with the gentleman from Florida.

Mr. CRAMER. I suggest to the gentleman from Oklahoma that I have been a member of this committee for only 5 years, but I sat on the Flood Control Subcommittee 3 of those 5 years, and I participated in the discussions and conferences concerning the omnibus bill in the last two sessions of Congress, and I think I have gone into this matter about as thoroughly as any member of this committee. If you read the debate on the floor of the House during the consideration of the last two bills, I think it will exemplify the amount of research and study that I have attempted to put on this on a simply good faith, objective basis.

Senator KERR. I don't doubt the gentleman's lack of good faith.

Mr. CRAMER. I resent the Senator saying that I sit here with a "blind bridle" on.

Senator KERR. I don't say that. I said that I am not sitting here with a blind bridle on.

Mr. CRAMER. The implication is pretty clear. I do not wish to argue with the Senator.

I appreciate your views and your adherence to them and the fine presentation you have made. My only purpose is to show on the record there are differences of opinion, obviously.

Senator KERR. That is obvious, healthy, and wholesome.

Let me say, sir, that I have the greatest respect for you, although I don't agree with your position, and I appreciate the fact that you have said the same for me.

Mr. DAVIS. Are there any other questions?

Mr. EDMONDSON. Mr. Chairman, I would like to state this: My regret every time the Senator appears before this committee to make a statement is that we can't vote immediately after he makes the statement.

Senator KERR. You should have voted before I made the poor judgment of getting into an argument with oue of the finest men on your committee.

Mr. EDMONDSON. I am not going to abandon him.

Senator KERR. Mr. Mumma and I will take him on that inspection trip.

Mr. EDMONDSON. I do think the Senator has made an outstanding statement.

Senator KERR. Thank you.

Mr. DAVIS. Thank you Senator.

Mr. John B. Bennett, Director of the Technical Review Staff of the Department of the Interior.

I hope we can hear you before we take a short recess for lunch. We will resume at 2 o'clock. We will have other hearings in the future. We have a great many departments to hear from.

We would like to have your expression and views as to H.R. 8. I do not mean to cut you off. I wonder if you could highlight your statement and put yourself in a position to answer any questions that the committee might have.

STATEMENT OF JOHN B. BENNETT, DIRECTOR, TECHNICAL REVIEW STAFF, DEPARTMENT OF THE INTERIOR, ACCOMPANIED BY DANIEL B. McCARTHY, PROJECT DEVELOPMENT DIVISION, BUREAU OF RECLAMATION; AND A. R. JOHNSON

Mr. BENNETT. Yes, sir; I will be glad to.

I have with me Mr. Daniel B. McCarthy, of the Project Development Division of the Bureau of Reclamation, and Mr. A. R. Johnson, of my own staff, who might be able to answer in some more detail some of the questions you might have.

Mr. Chairman and members of the committee, the Department of the Interior is in full agreement with the desirability of having a sound national water resources policy set forth for guiding its work in planning water resources development projects.

This view was set forth in the Department's comments on H.R. 8 dated July 9, 1959. Copies have just been distributed to you.

In those comments, however, it was pointed out that in our opinion the proposed act contains various provisions that would not contribute to such a sound national policy as well as other provisions that are not entirely clear.

Our objections to the bill stem primarily from four of its provisions:

1. The provision in section 5(b), which would direct an agency to make a favorable recommendation for authorization of a project whenever it is found to have benefits in excess of costs. In our opinion, such a provision would be undesirable because it would place too much reliance on the benefit-cost ratio, would preclude an agency from giving consideration to other matters of possible overriding importance, and would ignore as a measure of project feasibility the repayment criteria long established by reclamation law.

2. The provision in section 5(c) that units or features of a project may be included even though their added costs would be greater than the added benefits, provided total project benefits would still be greater than total costs. In our opinion, any features of a project which had benefits less than costs would be uneconomic increments and their inclusion in a project would not be in the national public interest.

3. The provision in section 6, paragraph 3, that the costs allocated to power should be only the incremental costs. Should only the incremental costs be allocated to one purpose, the other purposes do not share in the savings made possible by multiple purpose development, since they must bear the entire cost of joint-use features, such as the dam and reservoir.

It is also to be noted that in the case of an incremental allocation no purpose should be allocated costs in excess of benefits. For example, it is our understanding that the navigation benefits from a single-purpose project at the McNary site on the Columbia River could have been only one-sixth of the cost of such a project, and that the project could not have been built under the criteria set forth in this bill.

The cost allocation method now favored in the Department of the Interior is the separable-costs-remaining-benefits method, under which there are first assigned to each purpose or function of a multiple-purpose project those separable costs which are known to be incurred

exclusively for each function and which could have been eliminated from the total project had that function been excluded from the development; and second, there are apportioned the remaining or joint costs of the project in such a way that each function served by the multiple-purpose project shares equitable in the savings resulting from multiple purpose constructure.

The method assures that no function is allocated more cost than either the value of the benefit it produces or the alternative cost of developing the site for that purpose alone.

The principal question in cost allocation, as regards reimbursability, is whether the allocation to nonreimbursable functions, such as flood control and navigation, should be maximized or should be treated the same as the reimbursable functions. We have considered it no more equitable to charge the entire cost of a multiple-purpose dam to a nonreimbursable function such as flood control than it would be to charge it to any other purpose, reimbursable or nonreimbursable. Rather, all functions should be treated uniformly and equitably.

4. The provision in section 8 that the cost of power be repaid in 100 years. This, in our opinion is not sound. We recognize that the physical life of most structures, such as dams, may well be longer than 50 years; however, there are several other factors, we believe, which support a 50-year period for power purposes. The most important of these, we believe is obsolescence.

Another point on which we have questions is section 4(10) of the bill, which provides that where a unit or project is part of a plan embodying an integrated river basin development, the principal purpose of the unit or project shall be the same as the principal purpose of the comprehensive plan.

For a large river basin such as the Missouri River Basin, this could mean that the principal purpose of scores of units would be a purpose in no way served by those units. Such an arbitrary determination of the principal purpose of a separate unit could only lead to undesirable confusion.

Section 5(b) of the bill proposes legislation that would, in effect, direct an agency to make a favorable recommendation for authorization whenever a project is found to have benefits in excess of costs. In our opinion, such a provision in a water-resources policy act would be undesirable because it would place too much reliance on the benefit-cost ratio, it would preclude an agency from giving consideration to other matters of possible overriding importance and it would ignore as a measure of project feasibility the repayment criteria long established by reclamation law.

For example, if a project for which a proposed plan has been developed was found to have no local support even though the prospective beneficiaries would be largely local, it obviously should not be recommended for authorization. It is to prevent situations of this type that we believe that the agencies of the executive branch of the Government should be free to prepare their recommendations based on their best judgment of all factors affecting the situation. Congress, of course, will have the final say as to the action to be taken on these recommendations.

In section 5(c) the bill proposes that units or features of a project may be included even though their added costs would be greater than the added benefits, provided total project benefits would still be greater

than total costs. The inclusion of such units or features in a project would violate a basic principle that a project or program should be so designed as to include those separable segments or increments of scale of development that will provide benefits at least equal to the costs of their inclusion.

Any feature that had benefits less than costs would be uneconomic increments and, in our opinion, their inclusion in a project would not be in the national or overall public interest.

Section 6, paragraph (1) on page 6 of the bill relating to the allocation of costs is somewhat unclear since it does not specify whether "the cost of features * * * which relate to the principal purpose * * *" includes a share of the cost of joint-use features or is limited to the specific or separable cost of such purpose.

The same ambiguity is found in paragraph (2). Thus, these paragraphs do not indicate how the joint costs of such multiple-purpose projects should be allocated or distributed. Also paragraphs (1) and (2) taken together would seem to imply that only flood control and navigation could be a principal purpose.

Paragraph (3) provides that the cost allocated to power shall be essentially the difference in the cost of the project with and without electric power, i.e., the incremental cost. I want to point out that in deciding whether electric power or any other purpose should be included in a proposed project under current practice the expected benefits must only exceed the added or incremental costs of that purpose.

Such an analysis, however, does not indicate the appropriate method of allocation of costs to power or of all the costs of the proposed project even though each purpose is tested for inclusion on such a basis. In fact, there are cases where if only the incremental costs were allocated to power the remaining costs for other purposes would exceed the benefits and the project would not be feasible under current standards of feasibility employed by most Federal agencies.

The inclusion of several functions in one multiple-purpose project frequently makes it possible to obtain the benefits from each purpose at a cost less than the aggregate cost of a series of single-purpose projects. Thus, a single-purpose project may not be economically justified, while a multiple-purpose project, including such a purpose may be well justified.

Should only the incremental costs be allocated to one purpose, the other purposes do not share in the savings made possible by multiple-purpose development, since they must bear the entire cost of the joint-use features, such as the dam and reservoir. It is also to be noted that in the case of an incremental allocation no purpose should be allocated costs in excess of benefits.

For example, it is our understanding that the navigation benefits from a single-purpose navigation project at the McNary site on the Columbia River could have been only one-sixth of the cost of such a project. In other words, navigation was justified only in a multiple-purpose navigation and power development.

It is understood further that a single-purpose power project at the Narrows damsite in Arkansas would not have been economically justified, but the inclusion of power in this dam was justified as the result of the savings made possible by multiple-purpose flood-control and power development.

The principles and procedures that have been adopted by the Department for the allocation of cost of multiple-purpose projects are based on the interagency working agreement of March 12, 1954, concurred in by Interior, the Army Corps of Engineers, and the Federal Power Commission.

I believe that copies of that agreement are in the files of this committee. This allocation method was first recommended for general application to Federal projects by a Federal interagency group in 1950, based on studies originating in 1946.

The method is substantially the same as that employed by the Tennessee Valley Authority on its projects. The TVA allocation study of 1945 was the subject of a review and approval by the Federal Power Commission at the request of the Senate Committee on Public Works in 1949.

The separable costs-remaining-benefits method was also favored by the House Subcommittee to Study Civil Works in 1952, which recommended that each purpose of a project share equitably in the savings resulting from multiple-purpose development and also that the allocation be initiated by the construction agency.

It is the method also which has been endorsed by the Presidential Advisory Committee on Water Resources Policy in its report transmitted by the President to the Congress on January 17, 1956.

Under this method of cost allocation, there are first assigned to each purpose or function of a multiple-purpose project, such as flood control, irrigation, or power, those separable costs which are known to have been incurred exclusively for each function and which could have been eliminated from the total project cost had that function been excluded from the development; and second, there are apportioned the remaining or joint costs of the project, in such a way that each function served by a multiple-purpose project shares equitably in the savings resulting from multiple-purpose construction.

The method assures that no function is allocated more cost than either the value of the benefits it produces or the alternative cost of developing the site for that purpose alone.

The principal question in cost allocation, as regards reimbursability, is whether the allocation to the nonreimbursable functions, *flood control and navigation, should be maximised or should be* treated the same as the reimbursable functions.

A maximum nonreimbursable allocation results from assuming either that flood control and navigation should bear costs up to the *full limit of their capitalized benefits* or that these nonreimbursable functions should bear all projects costs except the incremental costs *of adding* a reimbursable function, such as power.

However, we have considered it to be no more quitable to charge the entire cost of a multiple-purpose dam to a nonreimbursable function such as flood control than it would be to charge it to any other purpose—nonreimbursable or reimbursable. Rather, all functions should be treated *uniformly and equitably.*

The provision in section 8 that the cost of power be repaid in a period of 100 years is not, in our opinion, sound. *We recognize that* the physical life of most structures, such as dams, may well be longer than 50 years; however, there are several other factors, we believe, that support a 50-year period for power payout.

One of these is obsolescence, and another is the steadily increasing costs for operation, maintenance and replacement. Obsolescence is probably a more important factor than the physical life of projects. Thus, the Department generally supports a 50-year period for power payout.

(The letter referred to is as follows:)

U.S. DEPARTMENT OF THE INTERIOR,
OFFICE OF THE SECRETARY,
Washington, D.C., July 9, 1959.

Hon. CHARLES A. BUCKLEY,
Chairman, Committee on Public Works,
House of Representatives,
Washington, D.C.

DEAR MR. BUCKLEY: There is pending before your committee H.R. 8, a bill to promote and to establish policy and procedure for the development of water resources of lakes, rivers, and streams.

The purpose of H.R. 8 is clearly stated in section 2 as follows:

"* * * it is the purpose of this act to establish a sound national water-resources policy generally applicable to the development, utilization, and conservation of water resources of the United States."

We are in full agreement with the desirability of having a sound national water-resources policy set forth for guiding the work of the various agencies in planning water resources development projects, but in our opinion the subsequent sections of the bill contain a number of provisions that would not contribute to such a sound national policy.

Section 5(c) of the bill suggests that units or features of projects may be included even though their added costs would be greater than the added benefits provided total benefits would still be greater than total costs. The inclusion of such units or features in a project would violate the basic principle that a project or program should be so designed as to include those separable segments or increments of scale of development that will provide benefits at least equal to the costs of their inclusion. The inclusion of uneconomical increments in a project would not be in the public interest.

In section 6 of the bill general procedures for cost allocations are set forth. These procedures would not result in the various purposes of a multiple-purpose project sharing equitably in the savings resulting from being a part of such a project. The sharing of savings as an objective of cost allocation should be included in any adopted national water-resources policy. We believe that the allocation of only incremental costs to power would not be an equitable basis for the allocation of costs.

Section 8 of the bill sets forth certain provisions for the establishment of rates to be charged for electric power. In our opinion, the rates charged for power produced by Federal projects should be determined in accordance with a general policy for the establishment of charges for project services. Such a policy statement does not appear in this bill but should be an integral part of any adopted national water-resources policy. In the absence of a policy statement on charges for project services, we shall not comment in detail on the ratemaking provisions of section 8. We believe, however, that the proposed payout period of 100 years for power is excessive and that it should be limited to 50 years.

Section 9 makes the provisions of the bill applicable to projects constructed prior to its enactment. As a general rule, such retroactive provisions are not desirable; however, the merits of including a retroactive provision in this bill could be judged only after it is modified with respect to project formulation, cost allocations, and charges for project services.

In addition to the above suggestions, it is noted that section 5(b) for all practical purposes directs an agency to make a favorable recommendation for authorization whenever a project is found to have benefits in excess of costs. In our opinion such a provision in a water-resources policy act would be undesirable because it would place too much reliance on the relationship between benefits and costs and would preclude the agency, or the executive branch of the Government, from giving consideration to other matters of possible overriding importance.

For example, if a project for which a proposed plan has been developed was found to have no local support even though the prospective beneficiaries would be largely local, it obviously should not be recommended for authorization. It is to prevent situations of this type that we believe that the agencies of the executive branch of the Government should be free to prepare their recommendations based on their best judgment of all factors affecting the situation.

Because of the extensive changes necessary in the bill before it could be considered acceptable as a statement of national water-resources policy, it is our recommendation that it not be enacted. In view of this recommendation, we have not commented on certain other parts of the bill which we believe would need to be changed to conform generally with the comments made in this report.

The Bureau of the Budget has advised that there would be no objection to the submission of this report to your committee.

Sincerely yours,

FRED G. AANDAHL,
Assistant Secretary of the Interior.

Mr. DAVIS. Thank you, Mr. Bennett.

Are there any questions?

Mr. Edmondson?

Mr. EDMONDSON. Mr. Bennett, on page 2 of your statement, where you deal with section 5(c), how do you classify recreation when you speak of uneconomic increments?

Mr. BENNETT. So far as possible we try to assign to recreation a monetary benefit.

Mr. EDMONDSON. How do you determine it?

Mr. BENNETT. There are various methods of determining it. They have all been rather arbitrary.

Mr. SCHERER. Highly speculative, too?

Mr. BENNETT. Yes, to some degree they are. No really safe method of determining recreation in monetary terms has been worked out. However, they can be described qualitatively.

As a matter of fact, some of the recreational benefits from some of these reservoirs are truly great.

Mr. EDMUNDSON. They are substantial, but I think to demonstrate them in advance of the project's construction would be almost impossible.

Mr. BENNETT. Probably the most feasible method of doing that would be to assign—and there again it is more or less arbitrary—an estimated value of a day's recreation and then multiply that by the number of days' recreation the project will supply.

Incidentally, in a great many of these projects, where estimates have been made of the recreational use in terms of number of persons, the estimates have been far under what use has actually resulted.

Mr. EDMONDSON. I think the actual use on the principal Army Engineer reservoirs in Oklahoma has been at least five times the estimates of use, of the ones that I am familiar with in my area.

Mr. BENNETT. We have submitted or are submitting some projects recently in which we have assigned dollar values.

Mr. EDMONDSON. The only reason I raise that is because I personally question your basic principle that you mentioned in this paragraph, that—

a program or project should be so designed as to include those separable segments or increments of scale of development that will provide benefits at least equal to the cost of their inclusion. Any features that had benefits less than costs would be uneconomic increments, and, in our opinion, their inclusion in a project would not be in the national or overall public interest.

Mr. BENNETT. The benefits may not be tanglible. They may be intangible.

Mr. EDMONDSON. You got too dogmatic about that principle; it would be difficult to justify any public use in the reservoir, and they are the best features of the reservoir.

Mr. BENNETT. I would agree with you there.

Mr. EDMONDSON. Is it your view that in the case of a dam's construction that if the people in the immediate vicinity of a dam are opposed to it that it should not be recommended?

Mr. BENNETT. Not necessarily. I would not want to answer that question categorically. It would depend on the situation.

Mr. EDMONDSON. The first complete sentence appearing on page 2 says:

> For example, if a project for which a proposed plan has been developed was found to have no local support even though the prospective beneficiaries would be largely local, it obviously should not be recommended for authorization.

Mr. BENNETT. We are referring there largely to reclamation projects which are reimbursable.

Mr. EDMONDSON. You are speaking primarily of irrigation?

Mr. BENNETT. Yes. The prospective beneficiaries would be largely local. They are not interested in the repaying of the cost of that project, so why should you build it?

Mr. EDMONDSON. I was thinking more in terms of flood control than irrigation. I do not think I have any further questions, Mr. Chairman.

Mr. DAVIS. Are there any questions on this side?

Mr. SCHERER. This is the official statement, is it, of the Department of Interior?

Mr. BENNETT. Yes, sir.

Mr. SCHERER. With reference to this legislation?

Mr. BENNETT. Yes, sir.

Mr. SCHERER. Do I understand the Department of Interior is therefore opposed to this bill?

Mr. BENNETT. We are particularly opposed to these features of the bill.

Mr. SCHERER. As long as those features remain in the bill that you are opposed to, you would be opposed to the bill?

Mr. BENNETT. Yes, sir.

Mr. SCHERER. I see that you disagree with the distinguished Senator from Oklahoma on a number of positions he took here this morning.

Mr. BENNETT. I am afraid we do.

Mr. SCHERER. Sir?

Mr. BENNETT. I am afraid we do.

Mr. SCHERER. You will have to join Mr. Cramer and me with those horse blinds.

I have nothing further.

Mr. DAVIS. Mr. Cramer.

Mr. CRAMER. I have no questions.

Mr. DAVIS. Mr. Baldwin?

Mr. BALDWIN. Mr. Bennett, I would like to refer to your statement where it deals with subsection (3) in paragraph 6. As I understand your point, which you have covered on pages 3 and 4 of your state-

ment, if the incremental method were used, it would actually mean that some of the projects which now could be built because power is given a proper portion of the allocation, could not be economically justified, is that correct?

Mr. BENNETT. That is correct. I think it is probably more correct with projects in the Northwest than it would be in projects in which the Senator is interested.

Mr. BALDWIN. In other words, if I understand you, some of the projects in the Northwest or West, may be some of the Colorado projects might be involved, in those projects where you considered purely other aspects, flood control and irrigation, considering those alone, they would not provide at least a 1 to 1 benefit-to-cost ratio?

Mr. BENNETT. No, they would not.

Mr. BALDWIN. So unless you credited power with a proper portion of the actual construction cost, you could not justify building the whole project?

Mr. BENNETT. No, you could not. We would have costs allocated in excess of benefits for those other purposes, and ordinarily you would not build the project.

Mr. BALDWIN. If I understand it, therefore, this bill in effect has an inconsistency between section 5 and section 6. Section 5 says that all purposes contributing benefits will be counted, and it includes electric power and all the rest.

So it says all these purposes will be counted in determining the benefit-to-cost ratio. But then in section 6 we are working at cross-purposes with section 5, and we are saying however we won't allow power to be counted in the allocation of the initial construction cost of the dam. So the power users will not be allocated that portion which nevertheless we use to try to justify the project.

Mr. BENNETT. That is about it.

Mr. EDMONDSON. Would not this be a distinction drawn there in the case of a project where primarily the purpose was power as distinguished from a project in which the other purposes were primary and power was an incidental or other purpose?

Mr. BALDWIN. What I am driving at is this: In this bill in section 5, the author is saying count all the benefits and develop those benefits for electric power and all the rest in determining whether or not the benefit to cost ratio is favorable. But in section 6 we are doing just the reverse.

We say don't count power in determining the initial cost in the allocation of that cost. You have to allocate just the cost of construction to the other phases. It might be irrigation, it might be flood control, but that is all. You cannot allocate any portion of that initial construction cost to power.

You can only allocate whatever portions you add on purely mechanically to handle the power.

That is correct, isn't it, Mr. Bennett?

Mr. BENNETT. That is correct.

Mr. BALDWIN. Therefore, the bill is inconsistent in that in justifying the economics of the project it is going to credit power with every bit of benefit that it can count for it, yet in charging the power users it is reversing itself and saying "Oh, no, we won't charge the power users even though we have given full credit in determining whether the project is feasible."

Is that accurate, Mr. Bennett?

Mr. BENNETT. I should think so, yes.

Mr. SCHERER. I want to compliment the gentleman from California on that statement, because I feel he is correct.

Mr. Bennett, isn't the ultimate objective of this legislation, the ultimate effect of this legislation, to subsidize the power users in the Southwest? Isn't that the effect of it?

Mr. BENNETT. I don't like to——

Mr. SCHERER. Decrease power costs?

Mr. BENNETT (continuing). Make any comment on the motives of the proponents of this bill. The effect of this would be that the public, the taxpayers, or if there were other reimbursable users, those users would pay more of the costs of power than they would under the method we now use.

Mr. SCHERER. In order to get cheaper power rates?

Mr. BENNETT. In order to get lower power rates.

Mr. EDMONDSON. Would the gentleman yield?

Is there anything in this bill that restricts the effects of this policy to the Southwest?

Mr. BENNETT. No.

Mr. EDMONDSON. Then the principle that is sought by this bill is not one designed to provide any particular treatment for a section of the country under any interpretation of the bill?

Mr. BENNETT. I believe—no, it would not be.

On the other hand, as I pointed out a minute ago, it is unlikely that any of these proposed big power projects in other parts of the country would be built under this.

Mr. SCHERER. I did not get the last part of your answer.

Mr. BENNETT. I said I believe that it is rather unlikely that outside of the areas where flood control is really the primary purpose, and power production is rather incidental in point of view of the relative benefits, it is rather unlikely that a great many of these projects would be built.

Mr. SCHERER. And that particular problem exists in the Southwest?

Mr. BENNETT. Apparently it does.

Mr. CRAMER. Would the gentleman yield?

Mr. SCHERER. Yes.

Mr. CRAMER. It further has the effect of making feasible power projects which under present methods are unfeasible, and they particularly relate to that section of the country?

Mr. EDMONDSON. Would the gentleman yield?

Mr. CRAMER. Is that correct?

Mr. BENNETT. Maybe I had better let Mr. Johnson answer that question.

Mr. JOHNSON. The situation there is that power is included as a purpose in the project from the benefits next to cost. In this case, this proposed bill would tend to charge an amount to power which is somewhat less than would have been charged to power under the presently used allocation methods, as Mr. Bennett pointed out. The conflict between these two sections arises over the one dealing with allocation, the other dealing with benefits.

Mr. BALDWIN. Would the gentleman yield?

Mr. SCHERER. Just a second.

The result would be cheaper power rates then. The differential will have to be borne by somebody.

Mr. JOHNSON. The answer is "yes."

Mr. CRAMER. If the gentleman will yield.

Under the old formula which is presently being used, the power phase of the project would not be feasible under this present formula as it would under the incremental method, isn't that correct?

Mr. JOHNSON. The question there, your definition of feasible, it might be justified from an economic standpoint, but the revenues collected under this bill might not be sufficient to cover the allocated costs.

Mr. CRAMER. That is the point I make.

Mr. BALDWIN. Would the gentleman yield?

Mr. SCHERER. Yes.

Mr. BALDWIN. Could I follow that point with a specific example?

Suppose, for example, you had a dam, and in breaking down the benefits when you determined whatever navigation and flood control and domestic water benefits were involved, that would just amount to say 60 percent of the construction cost, but the power from a benefit standpoint you computed to be 40 percent of the construction cost.

Adding it together you would have 1 to 1 ratio. But suppose the actual construction cost of the dam, excluding the power facilities, were at least 90 percent of what the construction cost would be with the power facilities. In effect you are giving 40 percent credit to power in determining the benefits, but since the construction cost without the power features amount to 90 percent you are only going to charge the power users with 10 percent.

That is an accurate example?

Mr. JOHNSON. Yes. That would be a situation Mr. Bennett pointed out where the cost allocated to the other purposes would be greater than the benefits to those purposes, which is an untenable situation in our ordinary way of considering projects, the feasibility of projects.

You cannot allocate more than the benefits to any purpose, or should not.

Mr. EDMONDSON. Would the gentleman yield?

I realize that the gentlemen testifying represent the Department of the Interior, which is primarily concerned with the 17 Western States. But the gentlemen are not contending, I hope, that there are not flood control problems in the New England States, in the East, or in the Midwest that require the construction of dams and that might lead to very substantial benefits to the people in those areas as a result of a policy that made it easier to justify the construction of flood control dams; are you?

Mr. BENNETT. I do not believe this formula would do that.

Mr. EDMONDSON. I am not restricting my comments now on that to simply the incremental method that is proposed in this bill. That is not only with the idea of using the incremental method but other provisions in the bill.

The gentleman would certainly agree for example that the 100-year payout would make it easier to justify a project and to obtain the support for it than 50 years payout.

Mr. BENNETT. It would make some difference; yes.

I believe the ordinary construction of the difference may be somewhat exaggerated.

Mr. EDMONDSON. Would the gentleman agree that if you tied down interest rates to be paid in your justification to an average over a 15-year period, rather than placing them right at the current going interest rate on Government securities, that you would have an easier justification for a project?

Mr. BENNETT. Oh, yes; we do.

Mr. EDMONDSON. Would not the gentleman also agree that if you were able to take an entire basin and evaluate an overall basin benefit from the series of projects and to say that the integral parts of that basin approach may be individually justified, on the basis of a basin justification, that that would facilitate and make easier the justification of an individual project?

Mr. BENNETT. Yes; it would, to the degree that each segment of that project actually made a contribution to the whole.

Mr. EDMONDSON. Where, if we persist with the philosophy that the gentleman is defending, of requiring each increment in a project to stand on its own feet, that we have a rather difficult road to follow in justification of a lot of projects and a lot of items in the project.

Mr. BENNETT. Well, the fact that you do basin planning does not necessarily mean that you develop every physically possible site in the basin. If you add increments to that project which themselves do not contribute as much as they cost, you reduce the feasibility of the basin project, the basin program.

Mr. EDMONDSON. I understand that. The point I was trying to make was that there were a number of other features in this bill that might have benefits to all segments of the United States if you are taking as your standard the justification of water development projects.

Mr. BENNETT. We have no basic objection to a great many provisions of this bill.

Mr. EDMONDSON. I am glad to hear you say that.

No further questions.

Mr. DAVIS. Are there any other questions?

Mr. Robison?

Mr. ROBISON. For the record, Mr. Bennett, I would like to say that I share your concern or your stated concern regarding the 100-year payout feature. I am sorry that my colleague from Pennsylvania has already left, because if you listened to the colloquy between Mr. Mumma and the Senator from Oklahoma it does seem to me that you have at the end of your statement put your finger on exactly the point that Mr. Mumma was trying to make, and that statement is, and I quote "obsolescence is probably a more important factor than the physical life of projects."

I am not sure I agree that it is a more important factor but certainly I would think, and I am sure all of us should consider, it is an equally important factor and should be given consideration in determining what is the proper payout term for public works of this type, and that that should be used.

I might say as a further observation that I assume you could say that a horse is equally as efficient, and presumably would have the same useful life period today as it would have had 40 years ago.

But there are very few of us who use a horse as a means of transportation, and very few of the good people here representing REA

areas who are farmers who probably use a horse on the farm for the operation of farm machinery.

I think this is a point that we are completely ignoring.

Mr. SCHERER. In other words, the horse cannot compete with the automobile even though the horse may be as good a horse as it was years ago.

Mr. ROBISON. Exactly. And another factor we are possibly ignoring is that in the near future—and this is an intangible consideration—we may very well have atomic generated electric power that is so cheap and so much more feasible than hydroelectric power that if we ignore that possibility in arriving at a 100-year feature I think we are closing our eyes to the technical progress which we are making or can make in that field.

Mr. SCHERER. DC–3's cannot compete with a Sabrejet.

If they could, we had better talk to the Department of Defense and save some money.

Mr. BENNETT. We do not argue over the physical durability of these projects. I am not sure that any of our large dams have yet lasted 100 years, or that we have had them that long.

Mr. EDMONDSON. Would my colleague yield?

Mr. ROBISON. I will be happy to yield.

Mr. EDMONDSON. I will grant, a horse might not compete efficiently with an automobile in a lot of fields right now, but for one of the principal uses of the horse in the Southwest, there are a lot more horses rounding up cattle right now than automobiles, and the price of a good cow pony right now compares very favorably with the price of a good cow pony 50 or 100 years ago.

Mr. DAVIS. Without objection, the committee will recess until 2 o'clock, promptly.

(Whereupon, at 12:23 p.m., the committee was recessed, to reconvene at 2 p.m. of the same day.)

AFTERNOON SESSION

Mr. DAVIS. The committee will resume its hearings. I will ask Governor McMath if he won't pull up a chair next to the witness chair, and then you can introduce the witnesses.

The Chair is delighted to welcome former Governor McMath, of Arkansas, my neighbor across the river from Memphis, Tenn. We are delighted that he is continuing his public service in this particular capacity.

Mr. MCMATH. Thank you, Mr. Chairman.

Mr. DAVIS. Governor, if you will introduce your witnesses now, we will give you all the time necessary.

Mr. MCMATH. The next witness, Mr. Chairman, is Mr. Walter Nesbitt, from the North Arkansas Electric Cooperative, at Salem, Ark.

Mr. DAVIS. You may proceed in your own way. I mentioned in going over to the Capitol an hour ago, that undoubtedly this hearing so far has indicated the need of legislation in this field. We are learning a lot. We started from scratch on yesterday. I am hopeful that when we get through we can come up with a bill that will be satisfactory and helpful to the entire country.

You may proceed in your own way.

STATEMENT OF WALTER NESBITT, DIRECTOR OF THE NORTH ARKANSAS ELECTRIC COOPERATIVE, SALEM, ARK.

Mr. NESBITT. Mr. Chairman and gentlemen of the committee, my name is Walter Nesbitt. I am a farmer, and a member of the board of directors of the North Arkansas Electric Cooperative of Salem, Ark.

Both the Norfolk and Bull Shoals Dams are located in the area allocated to the North Arkansas Electric, and the cooperative buys wholesale power direct from the Southwestern Power Administration.

Mr. DAVIS. Pardon me. A few weeks ago I was at Table Rock when you dedicated that power dam. I flew over Bull Shoals. I have been interested in Bull Shoals as a member of this committee over a long period of years.

Mr. NESBITT. I believe a little history will show you gentlemen why I am here today; why I have come to testify in favor of the Trimble bill.

Mr. Chairman, I feel that it is a wonderful commentary on our democracy that a farmer and a former GI can appear before your committee along with a truly great U.S. Senator and a two-star general.

Two years ago, North Arkansas Electric was paying SPA 5.6 mills per kilowatt-hour for wholesale electricity, but in August 1957 we began paying SPA 6.8 mills for wholesale power; up approximately 27 percent because of some new criteria or formula or computation being used to figure the cost of the dams. But other witnesses have and will testify about that. I am not an expert in those figures.

But this increase became a matter of grave concern to me, Mr. Chairman, and a matter of concern to a lot of my neighbors because they became expert in some figures, because in December 1957 it was determined by the board that the cooperative could not absorb this increase further, and a retail rate increase went into effect about Christmastime.

Under the new schedule, the minimum user continued to pay the same. The 100-kilowatt-hour user paid an increase of 64 cents per month; the 200-kilowatt-hour user paid an increase of $1.15 per month.

These increases may not seem large to you, but they are large to the small farmer and to retired people with small income.

We do not object to paying a fair price for power. I know of no farmer who objects to that. Although farmers are not very articulate, words do not come easily to us sometimes, we do object, and I would like to have our objections entered in the record, sir, we do object to having an unfair share of the cost of flood control and other benefits that are clearly in the national interest plugged into our meter poles.

We are concerned, too, because we buy some wholesale power from a commercial power supplier. And surely no one would be so naive as to believe that when our present contract expires, the new contract will not be equal to, or above, the SPA rate.

I would like to use the rest of my time, Mr. Chairman, to talk about something, concerning which I feel I know whereof I speak.

From what I can read about Budget Bureau Circular A–47, pertaining to an annual charge against the multiple-purpose projects equal to the taxes a privately financed plant would pay, were the Federal plant not constructed.

I see in this charge a device or a plan or scheme to slow down and delay Federal water resources development by applying arbitrary measurements calculated to show the power facilities of many multi-purpose projects to be less desirable than they really are; and in some cases to make the benefit-to-cost ratio of power features too low to be feasible.

Testimony was presented to this committee 2 years ago I believe, when considering power features for the Lone Rock and Gilbert Reservoirs in Arkansas, that the benefit-to-cost ratio, considering taxes forgone, would be 0.83. But if this device did not have to be applied, the benefit-to-cost ratio would be 1.1, and there would be no question of feasibility.

I have nothing to conceal from you gentlemen. Lone Rock and Gilbert are in our area and I am interested in their development.

But if this theory of taxes foregone is not a plan to slow down and delay development of our national water resources, then, in my opinion, the authors of this doctrine are ignorant of some of the facts of our economic life. Because I feel sure it can be documented that the theory of taxes forgone is unsound.

It is true, of course, that some tax revenue would be collected were a private plant constructed instead of the Federal project, but gentlemen, it certainly does not follow as night the day that because a Federal project is constructed, instead of the private plant, that an equivalent reduction in taxes would occur.

That sort of reasoning is as fallacious as can be. Indeed, sir, it is just the opposite; just the opposite is true. I knew the Norfolk and Bull Shoals areas when their development was just a dream in the minds of a few men.

I know these areas today, and it is something one has to see to appreciate. Our cooperative would be losing members today if it were not for the areas around Norfolk and Bull Shoals. The economic growth of these areas is phenomenal.

And tax revenue accruing to school district, county, State, and Federal Treasuries has kept pace, far outstripping areas further removed from the reservoirs. And I know this can be documented.

The management of the North Arkansas Electric Cooperative has long observed that electric revenues from the areas around Norfolk and Bull Shoals Dams, the reservoirs, far outstrip those from areas further removed. This is surely not just a happenso. Surely it is not just coincidence. In my opinion it came about because of the development of these great water resources for the good of all the people.

I would like to comment, too, before I close, that in my opinion all recognizable benefits, including recreation, should be given dollar values, and included in benefit-to-cost ratios. This last Fourth of July weekend abundantly proved that these benefits are far more than local or regional, as has been contended by some administrative agencies. So many people from so many States. It surely disproves the contention that it is local or regional.

I favor the Trimble bill. I believe it will bring about a more equitable distribution of the costs of power and that it will expedite the development of our Nation's water resources.

Thank you for listening, gentlemen.

Mr. DAVIS. You have made a very fine statement, representing the great people involved. As I said a moment ago, I flew down some weeks ago with the Assistant Secretary for Defense, flew over that country and attended the dedication of Table Rock.

That is a beautiful section of this Nation. You are certainly correct in saying that those projects resulted from a dream of a very few people. And now, when you have an abundance of electric energy, you are just changing the whole pattern of things down there. Recreation alone—people will come in there from all over this country and enjoy the recreational facilities which are a part of these big dams, multiple purpose, not only to take care of the floodwaters and in generating power, but bringing about great recreation not only for the people who live close by but for many miles beyond.

I say that if you are as successful in your farming as you are successful in presenting your case to this committee today, you are a happy man.

Mr. NESBITT. Thank you, sir.

Mr. DAVIS. Mr. Mack?

Mr. MACK. Mr. Chairman, I would like to make this observation: Living in the States of Oregon and Washington I know what the Columbia River developments have done for that region, and can appreciate your statement as to what these developments have done for your part of the country.

Mr. DAVIS. Mr. Edmondson?

Mr. EDMONDSON. I join you in commending this witness for some good common horsesense that he has given us on this subject. I think he has put his finger right on the truth regarding the origin of revised Circular A–47 as to the cost allocation procedures that emanated from it.

Mr. DAVIS. Mr. Baldwin?

Mr. BALDWIN. No questions.

Mr. DAVIS. Mr. Robison?

Mr. ROBISON. No questions.

Mr. DAVIS. Who is your next witness?

Mr. MCMATH. Mr. Virgil Shaw, manager of the Wood Electric Co-op, in Quitman, Tex.

Mr. DAVIS. Governor, while he is coming around, if you have some who have to absent themselves, or who have to leave, we can put their statements in the record at this point, if you have them.

Mr. MCMATH. I have them, Mr. Chairman. I have a number of statements which we would like to request the committee to have placed in the record.

Mr. DAVIS. We can do that right now.

Mr. MCMATH. All right, sir.

Mr. DAVIS. Call off the names and hand the reporter a copy of each statement.

Mr. MCMATH. Wesley R. Clendenen, manager of the Co-op Electric Power & Light Co., Inc., Iola, Kans., has a statement we would like to file for the record.

Mr. Truman Green, manager, Central Electric Power Co-op, Jefferson City, Mo.

Mr. Kenneth Holum, president of the Midwest Electric Consumers, Aberdeen, S. Dak.

Mr. T. E. Bostick, manager, Woodruff Electric Co-op, Inc., Forrest City, Ark.

Mr. DAVIS. Did he have to go back?

Mr. MCMATH. No, sir. He is here, but in order to save time he has agreed with permission of the committee to submit his statement.

Mr. DAVIS. He was an old schoolmate of mine at the University of Mississippi.

Mr. MCMATH. We are mighty proud of him, Mr. Chairman.

Mr. Doyle Pope, president, Western Farmers Electric Co-op, Anadarko, Okla.

Mr. Lloyd Evans, Kamo Electric Co-op, Inc., Vinita, Okla.

Mr. Henry Wencl, Kansas Electric Cooperative, Inc., Caldwell, Kans.

Mr. Ernest Wood, manager, Farmers Electric Co-op, Chillicothe, Mo.

Mr. Cecil Neely, manager, Northford Electric Cooperative, Sayre, Okla.

Mr. P. E. Dunkleberger, Kiwash Electric Co-op, Cordell, Okla.

J. L. Johns, Upshur Rural Electric Co-op, Inc., Gilmer, Tex.

J. S. Robbins, Jefferson Davis Electric Co-op, Jennings, La.

U. J. Gajan, Southwest Electric Membership Co-op, Lafayette, La.

Lewis Strong, Kay Electric Co-op, Blackwell, Okla.

E. E. Karns, Western Farmers Electric Co-op, Anadarko, Okla.

L. E. Maddox, Alfalfa Electric Co-op, Cherokee, Okla.

A statement from the board of trustees, Peoples Electric Co-op, Ada, Okla.

T. H. Kettle, Cotton Electric Co-op, Walters, Okla.

D. A. Whipkey, manager, Verdigris Valley Electric Co-op, Collins, Okla.

H. G. Templeton, Harmon Electric Co-op, Hollis, Okla.

I have only a few more, Mr. Chairman.

Mr. DAVIS. Take your time.

Mr. MCMATH. A statement from the board of trustees, Oklahoma Electric Co-op, Norman, Okla.

D. G. McClellan, Rural Electric Co-op, Lindsay, Okla.

Julius Helm, Missouri State Rural Electric Association, Jefferson City, Mo.

A statement from the board of trustees, North Western Electric Co-op, Woodward, Okla.

W. H. Saxton, president, Tallahatchie Public Power Association, Batesville, Miss.

The board of directors, Lake Region Electric Co-op, Wagoner, Okla.

Mr. Chairman, thank you very much for permitting us to file these statements for the record on this hearing.

Mr. DAVIS. You are accumulating a good record. All of these statements will become a part of the record and, of course, will be subject to reading by all of the members of the committee as we go along further.

(The above-described statements follow:)

STATEMENT OF WESLEY R. CLENDENEN, MANAGER, THE COOPERATIVE ELECTRIC POWER & LIGHT CO., INC., IOLA, KANS.

Mr. Chairman and gentlemen of the committee, my name is Wesley R. Clendenen, of Iola, Kans.

I am manager of the Cooperative Electric Power & Light Co., Inc., a rural electric cooperative serving approximately 2,300 members in four counties in southeast Kansas.

I am here representing the Kansas Rural Electric Cooperative statewide association as well as the cooperatives in southern and southeast Kansas, which is adjacent to areas now receiving electric power from the Southwestern Power Administration.

In Kansas farmers are the third largest distributors of electric power with an investment of approximately $100 million in 55,000 miles of line, serving 104,000 consumers.

We feel the SPA is a yardstick for determining the present rates throughout the State of Kansas, as well as all of the southwest area. We are, therefore, vitally interested in any legislation affecting the SPA rates.

Farmers dependent on electricity to meet today's production requirements cannot afford increased power costs in the face of declining farm income due to lower prices. We feel Congress should clearly define the formulas for allocation of costs and eliminate the confusion that seems to exist.

There are 37 rural electric cooperatives organized and operating in Kansas, with 12 of them located in the southern and southeast part of the State which is considered as being in the Southwestern Power Administration service area. These 12 cooperatives serve approximately 29,200 consumers on about 16,000 miles of electric distribution line.

Due to the economic situation of agriculture in that area, there has been a continued trend of people leaving the farms and going into industry. On the system I manage we now have 300 idle electric services and they are continuing to increase each year.

We are, therefore, anxious to hold the line in our costs of wholesale power. All of the 12 cooperatives in the area I just mentioned buy their power from private power companies with the exception of 2. One of these generates about one-third of the total amount sold, while the other cooperative generates all of its power, sold to their ultimate consumers.

According to the latest power study for the years ending Decmeber 31, 1957, which was conducted by the cooperatives of Kansas and the power companies, the cooperatives adjacent to the SPA marketing area paid an average cost of 0.564 mill per kilowatt-hour. These costs graduated up as the distance from the SPA marketing area became greater. They were as follows: 0.776 mill per kilowatt-hour, 0.882 mill per kilowatt-hour, and in the northwest part of the State, which is farthest from the SPA marketing area, the costs to the cooperatives average 1.094 mills per kilowatt-hour. Now with this threat of cheap power from the SPA marketing area removed, we are at the mercy of the power companies.

At a regular meeting of the executive commitee of the Kansas Electric Cooperatives, Inc., held February 4, 1958, the committee reaffirmed the following resolution adopted at the Kansas Electric Cooperatives membership meeting held February 7, 1957, which was as follows:

Whereas there is a real need to have a definite program policy relative to water resources and power development; and

Whereas the Trimble bill has been endorsed by the electric cooperatives and preference customers: Now, therefore, be it

Resolved, That the KEC board be authorized and directed to use every means at their disposal to secure passage of the Trimble bill and to encourage our Senators and Representatives to support the Trimble bill.

We in Kansas feel that with the passage of the Trimble bill, the allocation of costs for multiple-purpose projects should be given back to and made a responsibility of the Congress of the United States, where it belongs.

We, therefore, request that the committee study and consider this problem and recommend to Congress the passage of the Trimble bill, known as H.R. 8.

I thank the members of this committee for the opportunity to tell you how we in Kansas feel about this problem.

STATEMENT OF TRUMAN GREEN, MANAGER, CENTRAL ELECTRIC POWER COOPERATIVE, JEFFERSON CITY, MO.

Mr. Chairman and members of the committee, since 1954 cost allocations have been made by the Corps of Engineers using the "separable costs-remaining benefits" method as shown by the following statement made May 1, 1956, by Major General Itschner before the House Subcommittee on Flood Control of the Public Works Committee:

"In 1954 the three (Interior, FPC, and the Army) principal Federal agencies concerned agreed to the use of the "separable costs-remaining benefits" method of cost allocation; since that time the Chief of Engineers has used this method exclusively except where authorizing legislation prevented."

We contend that this method is being used as an arbitrary method to violate the Flood Control Act of 1944. The following statements were also made by General Itschner in the May 1, 1956, hearing:

"To apply the 'remaining benefits' of distributing the joint costs, it is necessary first to determine what benefits will accrue to each purpose.

"Cost allocation is only the process of distributing the entire cost of a project to the various purposes it serves without regard to the benefits the project will produce."

The above statements are very contradictory and are cast in further doubt by the following statement before the Senate subcommittee of the Committee on Public Works, February 27, 1956, by Mr. Bradley, Interior Department:

"The cost allocation method that we have been using is value. It doesn't have anything to do with project costs. It represents the best estimates that can be made as to the estimated value of the service being performed."

From the above statements, it is clear that costs allocated to power are arbitrarily set to make an electric rate as high as the traffic will bear.

This arbitrary method, used by the executive agencies, does not conform to the Flood Control Act of 1944, which says in part that electric power shall be disposed of:

"At the lowest possible rates to consumers consistent with sound business principles * * *."

We are not alone in our concern about these Government agencies juggling arbitrary policies. In June 1956, the Senate passed Resolution 281 which had the following purpose:

"Senate Resolution 281 is to correct a situation in which the executive agencies of the Government are progressively arrogating to themselves land and water resources development policymaking functions which properly reside with the Congress."

Another arbitrary decision made without any basis by the executive agencies is the 50-year payout period.

In the May 1, 1956, statement by General Itschner the following is found:

"It has not been the policy of the Government to make a profit on its water resources development projects so that over the assumed economic life of the project, which we take as 50 years, full compensation is made to the Government, with interest.

"The Government's profits will come after the 50 year period, as many projects will serve indefinitely into the future."

Again these statements conflict and violate the 1944 Flood Control Act because a "reasonable period of years" would be more than 50 years and closer to an "indefinite future" of at least 100 years useful life of the project facilities.

Since H.R. 8 will control irrational and arbitrary decisions on water resources by the executive agencies, we urge passage of H.R. 8.

STATEMENT OF KEN HOLUM, EXECUTIVE DIRECTOR, MID-WEST ELECTRIC CONSUMERS ASSOCIATION

Mr. Chairman and gentlemen of the committee, my name is Ken Holum; I appear here today as executive director of the Mid-West Electric Consumers Association to express our support for House Resolution 8.

The Mid-West Electric Consumers Association is an organization of rural electric cooperatives, municipal utilities and consumer power districts in the eight States of the upper Missouri Basin. Our organization is just over a year old, however, the interest of the preference customers in an organization that would give them an opportunity to work together, is such, that I can say, now, that we speak for almost a million consumers of electric energy in those eight States through their consumer-owned utilities.

Our members have a tremendous interest in the development of the Nation's resources and particularly, of course, in the development of the water resources in the Missouri Basin. Most of our rural electric cooperative members serve areas where farm people live far apart and as a result, they had to build long distribution lines to reach few subscribers. It is a matter of record that the Rural Electric Administration had to deny loans to many of these cooperatives until the passage of the Fort Peck Act and the Flood Control Act of 1944, with the preference clause. The preference clause assured the Rural Electric Administration that wholesale power would be available to the cooperatives at reasonable rates.

The municipal utilities in our area are systems located in small communities where it was physically and financially impossible to build large and efficient generating stations until the Missouri River program brought the benefits of efficient generation to these communities, for the first time. Obviously, we are tremendously interested in the Missouri River program because our survival and our success depends upon its completion and its management by individuals who are dedicated to the public good.

Personally, I had the privilege of serving as a member of the Missouri Basin Survey Commission in 1951 and 1952. The author of House Resolution 8, was one of the members of that Commission, as were five other distinguished Members of Congress. As a member of that Commission, I learned that in 1951, there was an amount in excess of $500 million in dispute as far as cost allocations are concerned between the U.S. Corps of Army Engineers and the Department of Interior. The Department proposed to allocate this large amount to flood control and navigation, the Army contended that the figure should be allocated to irrigation and power development.

Since that time, with no fanfare, no consultation with the Congress and no parcipitation by the public, the Department of Interior has capitulated completely. The $500 million has been assigned to irrigation and hydroelectric power, with the result that the power users will repay with interest, a substantially higher proportion of the project cost without any compensating increase in the benefits available to the power users. Let me sight one example of what I mean; in 1952 the Bureau of Reclamation allocation to project cost to Fort Randall was as follows:

Power	$61, 800, 000
Flood control and navigation	136, 685, 000

The new allocations made available to the public in 1955 were as follows:

Power	$139, 022, 000
Flood control and navigation	54, 563, 000
Recreation	515, 000

The allocation for flood control and navigation were reduced approximately 40 percent while the cost allocated to power were increased more than 125 percent. This, on a dam that was complete and in operation.

As a result of the new cost allocations on all the main-stem dams, the preference customers and other power users will repay 88.6 percent of all the reimbursable costs of the entire main-stem project—63 percent of the total cost of the project have been allocated to power and irrigation.

In the Missouri Basin, we are, right at the moment, considering a supplemental report of the "Adequacy of Flow Report in the Missouri River." It is interesting to note from this supplemental report on the basis of new evaluations that in the year 2020, when it is now anticipated that the project will be complete, that 6,384,000 acre-feet of water have been reserved for irrigation, 3,637,000 for downstream requirements for public health and stream sanitation and 11,918,000 acre-feet for navigation requirements above the water allocated for public health and stream sanitation. Approximately 70 percent of the usable water available has been allocated to these downstream, nonreimbursable benefits.

It should be noted in this connection that the "Adequacy of Flow Report" makes it clear and specific that not one gallon of water will be released from Gavins Point, the furtherest downstream dam, for the primary purpose of generating hydroelectric power. In a nutshell, we find in the Missouri Basin that power is allocated 88.6 percent of all the reimbursable costs; and top priority to none of the water; and irrigation and power together are allocated 63 percent of the total cost and 30 percent of the water; and that flood control, streamflows for sanitary and health purposes and navigation are allocated none of the cost and 70 percent of the water.

Certainly, this committee will agree with me that an allocation of water in an area as arid as the Missouri Basin is, in effect, an allocation of the benefits of the project.

After studying figures which I have set out above, I am sure that you can understand why the Mid-West Electric Consumers Association and its members are so firm in their convictions that the Congress of the United States should set forth rules and regulations for the allocation of costs in these multipurpose projects. There is nothing in our experience to justify hope on our part that reasonable allocations will be made by the agencies involved.

May I make it perfectly clear that the Mid-West Electric Consumers Association recognizes that irrigation of our dry lands in the West is of greater importance than the generation of hydroelectric power. We accept the idea that power revenues shsould reimburse the Treasury for their fair share of the cost of multipurpose projects. We contend that power revenues should be maximized immediately to build up the funds required to assist the development of irrigation.

Our experience has led us to conclude that there are two areas where the Nation's policies, with respect to resource development need clear and precise definition. Because these are basic matters of public policy, they require the attention of the Congress. I refer to policies having to do with priorities for the use of water and rules for the allocation of cost at multipurpose projects.

We contend, and will continue to contend, that Congress has established priorities for the use of water in the Missouri Basin when it adopted the O'Mahoney-Millikin amendment to the Flood Control Act of 1944.

However, we have been disturbed to observe that the agencies interpret section 1b (the O'Mahoney-Millikin amendment) in a manner different from the author. We suggest that both a proper interpretation and sound water use in our area would result in priorities substantially, as follows—

(1) Domestic and municipal consumption and pollution control.

(2) Irrigation, including ground water recharge and industrial consumption.

(3) Hydroelectric power.

(4) Fish, wildlife, and recreation.

(5) Navigation.

The O'Mahoney-Millikin amendment is sound in principle. A way must be found to enforce the mandates it includes.

At the moment, however, this committee is more specifically concerned with the problems of cost allocations. As I have noted our experience in the Missouri Basin with cost allocations determined by the interested agencies has not been good.

On the basis of our experiences, we are convinced that sound multipurpose planning, development, and operations must be based on clearly definited policies as to the allocation of costs determined by the Nation's highest policymaking authority, the Congress.

In other areas of the Nation, we have observed the need for this congressional determination because of tendencies within a constructing agency to be prejudiced for or against certain phases of multipurpose development.

In our Missouri basin, the difficulties are compounded because of the division of responsibility between the many agencies and varying degrees of effectiveness in representing their specific interests.

The Nation needs rules for cost allocations determined by the Congress. Specifically, the Missouri Basin needs those rules. The preference customers in the basin who are the "aggrieved party" under present cost allocations need this determination urgently. Hydroelectric power has been allocated an unreasonable amount of the project's total costs at the present and there is nothing, at present, to prevent the situation from getting more unfair in the future, to the detriment of both the preference customer and the irrigator.

May I assure this committee that the rural electric cooperatives, the municipal utilities, and the consumer power districts in the Missouri Basin appreciate your concern for their welfare.

Thank you.

STATEMENT OF T. E. BOSTICK, FORREST CITY, ARK., CHAIRMAN, LEGISLATIVE COMMITTEE OF THE ADVISORY COMMITTEE ON POWER FOR THE SOUTHWEST

Mr. Chairman and gentlemen of the committee, my name is T. E. Bostick. I am manager of the Woodruff Electric Cooperative Corp., of Forrest City, Ark., a corporation organized by the farmers under the laws of the State and Rural Electrification Act, to serve a seven-county area of east central Arkansas with rural lights and power, and to serve approximately 13,000 farm families over 4,000 miles of distribution lines. I am a board member of Arkansas State Electric Cooperative, organized to serve the some 135,000 farm families of Arkansas with rural lights and power, and chairman of the legislative subcommittee of the Advisory Committee on Power for the Southwest. This six-State area of the Southwest serves approximately 1 million farmer power users. Also, I am a farmer member of our own organization utilizing some 40,000 kilowatt-hours of electricity per year (since the acreage cut) in my own farming operation, which I mention to qualify my statement, and the fact that I do know the value of and the necessity for low cost electricity on the farm, especially in the face of our declining farm economy.

As chairman of the committee on rates in Arkansas, we have had a continuous struggle with the power companies on rates since 1938, starting out with 1.2 cents per kilowatt-hours, thence 9 mills, 7½ mills, 6 mills, and 5½ mills. These graduations downward have come about only through many, many, slow and painful negotiations with the power companies, and have been in direct proportion to the intensity of the SPA program's participation. It was only through the threat of getting our power through SPA that we were able to bring our rates down at all.

Now with this threat of cheap power from the dams removed, we are at the mercy of the power companies. The yardstick for rates to come from the hydroelectric dams as originally intended by Congress as established through TVA, Booneville, SPA, Reclamation, and the Flood Control Act of 1944, is beginning to work in reverse in the SPA area. Rates have already advanced 27½ percent. Instead of working to bring low cost electricity to all the people of our country, the governmental agencies in power and control, are seeking to bring the rate level of public power electricity up to a level with the private power companies rates, which these power companies have advocated and fought for. This fact is forcibly brought out in the SPA area—and it will not stop there. SPA is only the guinea pig. If they succeed here the increase will mushroom.

Unless Congress takes a hand to stop this usurping of power by these Government agencies, who seem to be working hand in hand with the power companies, then the battle the farmer and the Congress has waged to bring low cost electricity to every farm is lost—doomed to failure—the public power rate yardstick will become naught. Rates will advance in all areas to a point the small farmer cannot afford. This maneuvering of rates not only affects the farmer, but digs into the pocketbook of every wage earner in the Nation.

Since the beginning by the Government of the rate yardstick program through the hydroelectric projects, the people of the rural areas of our Nation through REA have come a long way—from a national average of 10 percent using electricity to a 95 percent average. Only through low cost electricity was it possible for this to be accomplished. The economy of our Nation has been enhanced by over $12 billion as a result of the demands for consumer goods by our rural people. Is our Government to stand by and see this necessity of life taken away from its people after it made a deal or commitment to its people to furnish this low cost electricity, or to furnish the yardstick for same.

Dams have been built, electric power installations made, moneys borrowed by farmer electric cooperatives to construct their own power distribution and transmission lines, as well as generating plants. These moneys have been borrowed by the people of our Nation with the full expectation of repaying every cent with interest, and they have been so doing. Then does it not stand to reason that these same peoples of the Government could expect their Government to keep faith with them by continuing to sell them power as cheap as possible instead of as high as possible?

We in Arkansas negotiated what we thought was a final 10-year contract with the power company about 6 years ago, and were assured that we at least had rate security for 10 years, but were rudely awakened by a letter from this power company in May of 1955 telling us our rates were to be increased 43 percent effective with the next June billing to about 7.5 mills—even in the face of our holding in our files the 10-year contract with no escalator clauses—are we coming to this same type of business ethics in our Government? Is the Government not going to keep faith with its people? The power company later, after a battle, told us they would live up to the 10-year contract but when the contract expired, to expect an increase to around 7.5 mills, plus a 100 percent ratchet clause, which will bring this cost on our system to around 9 mills.

At about the same time, another power company operating in the SPA area increased its rates to approximately 7.6 mills.

The SPA, through the Department of Interior, intended an increase of about 40 percent in 1956 or to about 7.7 mills, but was finally settled on an average of 27½ percent increase after a fight before the FPC. This similarity of pattern by all the power companies and SPA is incredible.

Our Government should not become involved in a race by the power companies to bid for this hydroelectric power at the dams, but should hold the line against such a proposal and against such propaganda, and let its people buy this power at low cost as was the original intent of Congress. We further advocate that the power companies should have this power at the same price after preference customers are taken care of—then there would be no discrimination. Bring these power companies' rates down to the yardstick level instead of raising the yardstick up to their level.

In 1956 at a hearing before the Assistant Secretary of Interior, the Advisory Committee on Power for the Southwest, of which I am a member, was told that three agencies of Government, namely, Department of Interior, Corps of Engineers, and Federal Power Commission, had agreed among themselves on a formula to adjust the cost allocations on these dams of the Southwest as to the percent of total costs that should go to power. As a result of this newly devised formula, Circular A–47, the amount chargeable to power on the Table Rock Dam will be approximately 87 percent of the total cost of the dam as per the latest figure available. Denison Dam's cost was set by Congress at about 32 percent—87 percent versus 32 percent and this is all an accounting maneuver. The actual dollar percentage of cost has not changed. If a dam cost $70 million without power installations and $100 million with power installations, does it not stand to reason that 30 percent of cost should be allocated to power instead of 70 percent?

Please note the attached tentative power and investment data for multipurpose projects of SPA from latest available data.

Tentative power and investment data for multiple-purpose projects in the area of the Southwestern Power Administration

Project	Installed capacity (MW)	Navigation	Flood control	Power	Percent to power	Water supply or conservation	Streamflow regulation	Total investment [1]
Beaver [2]	96		$7,003,000	$45,418,000	86.4			$52,421,000
Blakely Mountain [3]	75		8,118,000	25,034,000	75.5			33,152,000
Bull Shoals [2]	340		30,301,400	64,473,200	68.0			94,774,600
Dardanelle [2]	120	$47,345,000		54,663,000	53.5			102,008,000
Denison [4]	70		41,236,600	19,873,250	32.3	$391,400		61,501,250
Eufaula [2]	90	62,792,500	69,127,000	37,883,000	22.3			169,802,500
Fort Gibson [3]	45		26,666,300	16,957,800	38.4			43,624,100
Greers Ferry [2]	96		21,300,000	37,410,000	63.7			58,710,000
McGee Bend [5]	52		7,124,300	20,652,600	36.2	29,316,900		57,093,800
Narrows [3]	17		7,988,000	5,496,000	40.0			13,484,000
Norfork [4]	70		16,129,000	13,910,000	46.3			30,039,000
Table Rock [2]	200		10,324,000	69,744,000	87.0			80,068,000
Tenkiller Ferry [3]	34		11,582,400	11,800,700	50.0			23,383,100
Whitney [3]	30		32,706,100	8,060,300	18.4		$2,946,700	43,713,100
Total	1,335	110,137,500	289,606,100	431,375,850		29,708,300	2,946,700	863,774,450
Percent of total		12.8	33.5	50.0		3.4	0.3	100.0

[1] Exclusive of recreation specific costs.
[2] Approximate allocation on basis of current approved cost estimates, or best estimates available at this time, separable costs—Remaining benefits method.
[3] Separable costs—Remaining benefits method.
[4] Incremental—Flood control basic method.
[5] No information available on project with 52,000 kilowatts capacity installed. These investments taken from a tentative allocation with an installation of 45,000 kilowatts dated Sept. 3, 1957.

When hardly without exception these dams are major flood-control dams, with recreation, soil conservation, navigation, irrigation, water conservation, and reclamation intermingled, then why should electric power—that is supposed under the Flood Control Act of 1944 to be delivered to the people at the lowest possible cost—be made to bear an 87 percent of the cost or the major cost of a flood-control dam, and be sold to the people at the highest possible cost the public will bear, instead of the lowest possible cost, as was the original intent of Congress?

The objective of the administration seems to be to destroy all forms of public power—and seems to be doing so in many subversive ways such as:

1. Government agencies, without congressional authority, changing allocation of costs to power in hydroelectric dam construction which is choking off the desire to construct hydrodams by using this method of cost allocation. It makes the cost of power generated so high (purely a bookkeeping figure) that only the power companies can afford to buy it—but still this costs the power companies nothing. They merely pass this Government sponsored, and private utility inspired, increase on to the people who have to pay the bill or else leave off a necessity of life.

2. A carefully laid plan to raise the interest rates to the cooperatives to 4 percent or more, thereby doubling the interest charge expense from the Government when actually the U.S. Government through REA made a profit of $47 million on loans to the co-ops to 1956.

3. By further recommending that the Government not lend any more money to the cooperatives, but force them to Wall Street for funds, thereby forcing us into the hands of our enemies, and, of course, you know, and we know, what will happen in that case—many electric cooperatives will be foreclosed, and the properties that the people have developed, will pass to the hands of the power companies. This might result in the Government getting its money back as a result of such a foreclosure or it might

not—the power companies might decide to doublecross the Government and buy these properties at their own price if these companies succeed in raising our cost of power 25 to 40 percent, and succeed in getting our interest rates doubled—or in some cases more than doubled. If this should happen, it would mean that our Government had welched on a deal it had made with its people—that our Government would be partners in crime so to speak with the money of Wall Street.

Naturally when costs chargeable to power in these dams can be changed at the whim of any Governmental agency, it makes unstable the financial stability of the SPA rates, and it follows that they must be adjusted upward accordingly to such a high point that it may become unfeasible to build flood-control dams from a power standpoint and we are certain this is the objective the power companies as well as the objective of these governmental agencies that are working hand in hand with the power companies.

The Subcommittee on Public Works reported December 5, 1952 "*the agencies* (the three above mentioned) *are operating in considerable confusion in the problem of allocation costs and that the Congress has not been adequately specific in outlining a policy to be followed in cost allocation.*" [Emphasis supplied.]

And further the Comptroller General in his audit reports to the Congress in 1954, regarding the activities of the SPA, said:

"In previous years a jurisdictional dispute has existed between the Department of Interior and the Corps of Engineers, Department of the Army, concerning the allocation of construction costs of multipurpose projects. We have been informed that general agreement on allocation of costs of multipurpose projects has been reached with the Corps of Engineers. *The procedures agreed upon, however, leave unresolved the basic problem of final responsibility for making allocations.* We believe that the basis for the difference that existed which were fundamental in character *should be resolved with finality by clarifying legislation.*" [Emphasis supplied.]

Year after year the Congress receives reports suggesting that something be done to clarify this situation—yet Rome burns while Nero fiddles.

As a further proof of the need for this bill, I would like to point out that should this proposed SPA rate increase be made effective on my cooperative, it would cost us $116,000 the first year. In previous hearings it was mutually agreed by all parties concerned that the use of electricity would double every 10 years.

Going on this assumption of doubling each 10-year period, the first 10 years would amount to $1,740,000 increase; the second 10 years would amount to $3,420,000 increase; and the third 10 years would amount to $6,960,000 increase, making a total increased cost to our cooperative alone an amount of $12,120,000 over a 30-year period. Our original investment has been approximately $7 million, so the total increased cost to our cooperative would be $12,120,000 more than our original investment in added operating costs—and merely from wholesale power increased costs alone. In the whole State of Arkansas the increased cost would amount to $72,720,000 over a 30-year period, which is more than the total amount loaned to the entire group of co-ops in the State.

The following chart will show an estimate of the economic effect on the Southwest area composed of six States should this average increase of 2 mills by SPA be permitted to go into effect in the whole six-State area.

	Number of members	1954, kilowatt-hours bought	1954 power costs	2 mill increased cost, 30-year period
Arkansas	127,636	309,000,000	$1,728,000	$72,720,000
Oklahoma	130,037	382,000,000	2,213,000	84,000,000
Missouri	237,249	850,000,000	7,658,000	182,000,000
Louisiana	103,493	226,000,000	1,063,000	56,000,000
Texas	318,452	1,053,000,000	6,391,000	227,000,000
Kansas	92,476	250,000,000	2,450,000	52,000,000
Total	1,009,343	3,170,000,000	21,503,000	601,000,000

Since the foregoing estimate was made in 1955, an actual application of the 27½-percent rate increase instead of the proposed 43 percent has been made to our cooperative for actual use in 1957 at 35 percent load factor. By using the SPA hyperbolic chart on the present SPA rate, we find that the cost to our co-op

would have increased $150,757. We had a margin in 1957 of only $27,611—this increase would have thrown us in the red by $123,145—and the actual $150,757 increase is considerably more than our previous estimate of $116,000. We mention this actual application to show that our previous estimated cost of $601 million as shown by the above chart to the SPA area is low.

Add to this deficit the proposed interest rate increase of 2 percent and this would have cost us, had it been in effect, an additional $132,185, thereby making our deficit $255,332.

We mention all of this to show the pattern that has been set to destroy us.

The total costs of power installations in Denison, Norfork, Bull Shoals, Blakely Mountain, and Table Rock and other SPA projects, according to the new costs formula, is at present about $431 million versus an original $220 million. No more moneys have been spent, yet cost allocations have changed under the new formula from the date of the first construction period and fluctuate from month to month or year to year so that no one—unless it's the three governmental agencies—knows what the figure will be next year, or the next, and so on.

Over a period of 30 years, this Circular A–47 method of cost allocations will cost the farmer members over $600 million, or about 1½ times the cost of all power installations at all the dams in operation and under construction in the Southwest, or approximately three-fourths of the total cost of all flood control dams in the SPA area. We do not believe the Congress ever intended to saddle the farmer with this kind of financial burden and make him subsidize all these other activities.

In my humble opinion the increase which has been put into effect by the Department of Interior through SPA could be canceled, and any need for such an increase could be resolved by doing two things:

1. Raise the amortization period from 50 to 100 years, or to the payout period at the old rates, whichever is the lesser. In the Senate hearings on this same subject, it seemed to be generally agreed to by all parties that the minimum life of a power dam was 150 years and upward to 500 years. Formerly Assistant Secretary Aandahl stated his study showed that by keeping present rates in effect that the dams would pay out in 78 years. SPA Administrator Douglas Wright concurred in this statement.

2. Go back to the true incremental cost method to figure allocation costs by having the Corps of Engineers figure the cost of any dam, including all facilites except power, then have them figure the cost with power facilities added, the difference to be the amount to be charged to the power installation. This is the method Congress directed to be used on Denison Dam. We do not agree by using this method that the rate would be only one-third mill less than the method as used by the Assistant Secretary of the Interior. It is just not in keeping with the 32 percent allocated cost to power on Denison Dam where the congressional directive was used and the 87 percent allocated costs to power on Table Rock where the Assistant Secretary's method was used.

SPA was doing fine—paying its way—until the 83d Congress failed to provide it with a continuing fund on which to operate and carry out its commitments. Records of the Congress will show that it was curtailed largely on the testimony presented by the power companies to the committees, and as a result of Congress failure to provide these funds chaos followed. Administrator Wright of the SPA told this committee on June 29, 1956, that the failure to show a good payout status was due mostly to Congress curtailment, which tied his hands, and, in addition, low water for 2 years. Since the 1955 Congress reactiviated the old contracts there has not been sufficient time and freedom of action to bring the payout position back to normal, and with this new rate it will take until 1965 or 1966 to catch up with the delinquency due to the cost allocation jumping from $211 million to $431 million.

We believe it has been the full intent of the power companies to bring these conditions into being and then after doing so hold up to the people the loss record, without bringing into view all of the facts.

We implore this committee to recommend H.R. 8, known as the Trimble bill, out and do pass, which to our thinking will correct to a large extent the inequities that have been created, and take this rate increase burden off the necks of our farmer members and off the necks of every wage earner in the Nation.

It will also serve to make more of the flood control projects feasible; will help to make possible the speeding up of the flood control program, thereby accelerating the employment program whic his always needed; and will help to alleviate a crisis our Nation is facing in the production of hydroelectric facilities.

The Corps of Engineers on administration request has made no new starts on hydroelectric facilities since 1954. Our power use or consumption is doubling each 7 to 10 years; our population is increasing, and war tensions are still a problem; yet we do very little toward the hydroelectric development of our rivers for the full benefit of our people.

Averell Harriman, former Governor of New York, has recently reported seeing the world's largest hydroelectric development at Bratsk, Siberia. This Russian plant will have a capacity of 4,500,000 kilowatts when completed—20 generators of 225,000 kilowatts each—more than double the size of Grand Coulee, the largest we have. In my opinion we should stockpile these hydroelectric projects, wherever feasible, the same as we stockpile ammunition, because a few well-placed hydrogen bombs could paralyze our industry, and in this development we should sell the power to our people at the lowest possible cost instead of at the highest possible cost.

The passage of the Kerr-Trimble bill, H.R. 8, can help bring this about.

Thank you, gentlemen, for your time and patience.

Analysis of H.R. 8

The persons and organizations which advocate enactment of H.R. 8 represent rural electric cooperatives, public power districts, and munipical electric utility systems in nearly every State of the Union which, collectively, purchase approximately 25 percent of all hydroelectric energy generated at Federal projects.

The need for statutory standards

Two basic problems are generally recognized by most parties interested in water resource development. First, national water supply is critical. President Eisenhhower's Advisory Committee on Water Resources reported on December 22, 1955, that—

"Shortages of water for domestic and agricultural use are frequent. Industry is finding it increasingly difficult to locate adequate water supplies. Lack of adequate planning threatens to impose a water scarcity which can become a limiting factor on the growth of some of our cities. At the same time, flood damage in many areas continues to be great."

Second, differences between administrative agencies charged with separate phases of Federal water resource administration must be resolved and the effects of policy differences between successive administrations mitigated. How better can these problems be met than by the establishment of statutory standards to guide all administrative agencies?

On December 14, 1956, Mr. Joseph Campbell, the Comptroller General, stated in commenting on Senate Resolution 281:

"To resolve the matter of reaching firm cost allocations, we believe Congress should take one of the following alternative courses of action:

"1. Establish policies and criteria for making cost allocations and designating specifically the agency to make the allocations. * * *

"2. Establish policies and criteria for making the cost allocations and designating the Federal Power Commission to make the firm cost allocation wherever power is a purpose of the project. * * *

"3. Establish policies and criteria for making the cost allocations and requiring the construction agency, the power marketing agency, and the Federal Power Commission jointly to submit appropriate reports and allocations of the costs to the Congress, or its designated committees to approve an allocation. * * *

"Under either alternative, we believe the Congress should require that the cost allocations or the report on cost allocations be made and submitted about the time the project is substantially completed and placed in operation. * * *

"Policies and criteria used for cost allocations and related matters have not been uniform between the agencies having water resource development responsibilities. *Notwithstanding the efforts in recent years of the Inter-Agency Committee on Water Resources (and its predecessor, Federal Inter-Agency River Basin Committee), the Presidential Advisory Committee on Water Resources Policy, and the Bureau of the Budget to formulate mutually acceptable principles and procedures, we believe that the Congress should provide the basic framework of policies and criteria.* [Italic supplied.] Among the factors in which the congressional intent may be expressed are:

"(1) Benefits and costs to be considered in the benefit cost analysis for the evaluation of projects and in the allocation formula. Under this factor the Congress may want to consider the degree to which secondary benefits and indirect costs are to be included in determining the total benefits and total costs.

"(2) Costs to be included for purposes of allocation and to be repaid by beneficiaries; that is, whether interest in the Federal investment, costs of other Federal agencies applicable to the project, and similar costs not paid directly by the constructing agency are to be classified and recorded as costs of the projects.

"(3) Number of years to be used as the basis for realization of project benefits and repayment of reimbursable project costs.

"(4) Rate of interest and method of computation.

"(5) Costs applicable to other purposes to be repaid by power revenues.

"(6) The purposes to which costs are to be allocated and the criteria for allocation. * * *"

The very purpose of H.R. 8 is to carry out the above recommendations of the Comptroller General.

COST ALLOCATIONS

Section 6(3) of H.R. 8 would apply to multiple purpose projects, which include hydroelectric features, the incremental method of cost allocation, with the principal purpose of the project considered basic. This provision is grounded on the fact that only in isolated instances does the Federal Government construct hydroelectric plants as such. Projects under the jurisdiction of the Corps of Engineers are usually authorized and constructed to achieve flood control or navigability, or a combination of these purposes. Power generation is included as an incidental feature.

The same principle applies to most Bureau of Reclamation projects. And although power features were included in reclamation projects at an earlier date than they were in flood control and navigation projects, power has been considered as a benefit incidental to the principal purpose of providing agricultural, municipal, and industrial water supply for the arid areas; power generated at reclamation projects if first used as needed for pumping purposes; and, a substantial part of the revenue derived from the sale of the remaining power is used to repay the cost of project irrigation features.

But the very fact that the electric power features are lucrative, tends to induce a false belief that power is a principal project purpose, whereas actually it is not.

The administrative agencies responsible for operation of the Federal water resource development program have themselves misconstrued the intent of Congress. They have, gradually, abandoned the original concept of power as incidental, and now think of it as a principal project purpose. This is part of the change that has created an apparent need for Federal power rate increases, and poses to the power user serious economic dilemma.

The problem arises particularly with respect to the multiple purpose dams on the main stem of the Missouri River and in the Southwest.

In 1953, the Bureau of Reclamation was allocating 31 percent of the cost of the main stem Missouri River plants to hydroelectric power and 69 percent to flood control and navigation, upon the theory that power was an incidental purpose of these projects which were originally designed to afford a 9-foot free flowing navigable waterway below Gavins Point, conservation of water for upstream irrigation features and flood protection to the lower Missouri and Mississippi Valleys.

However, since 1953, the Bureau has revised these cost allocations, and now allocates 63 percent to power and 22 percent to flood control and navigation.

The Southwestern Power Administration originally allocated approximately 30 percent of project costs to hydroelectric power. By contrast, the Department of the Interior now allocates approximately 52 percent of SPA project costs to power. The authorization for two of the projects in the Southwest, Norfolk, and Denison, was expressly conditioned upon the incremental method of cost allocation. For these two projects the present allocation to power is 32 and 47 percent respectively, and it is interesting to note that were the now pevalent separable costs-remaining benefits method applied to these two projects, hydroelectric power would bear 43 and 66 percent of construction cost respectively.

These cost allocations revisions have resulted from an administrative agreement between the Departments of the Interior and Army and the Federal Power Commission dated March 12, 1954, entitled "Cost Allocation" which is attached

hereto as exhibit A. This agreement stipulates three methods of cost allocation as acceptable by the signatory agencies. They are (1) separable costs-remaining benefits, (2) alternative justifiable expenditure, and (3) use of facilities.

Bearing in mind the three methods that have been agreed upon as acceptable by the administartive agencies, attention is also directed to table I, attached hereto as exhibit B. Table I contains a list of 22 various Corps of Engineers and Bureau of Reclamation projects. It also contains for each project a tabulation of the percentage of project construction cost that would be allocated to hydroelectric power under six separate methods of cost allocation, each of which is being or has been used by one or more agencies of the Government at some time. The last line of table I shows the average allocations calculated by applying the six different methods of cost allocation to all of the projects. Note that the separable costs-remaining benefits method and the alternative justifiable expenditure method each result in an overall figure 61.3 percent of construction cost allocated to power, and that the use of facilities method results in an average allocation to power of 62.8 percent.

Thus, the three methods recommended by the administrative agencies are those which, on the average, result in the allocation to hydroelectric power of high portions of project construction cost. Note also that the priority of use method results in a 53.8 percent allocation, the incremental method in a 50.8 percent allocation and the specific costs method in 34.7 percent allocations. None of these other methods, which result in lower allocations of cost to power, are acceptable to the administrative agencies.

H.R. 8 does not contend for general application of the specific cost method which results in the lowest allocation to power. It contends for general application of the incremental method which, in our opinion, best expresses the intent of Congress, and which, for the 22 projects studied, would result in an allocation to power of approximately 50.8 percent of the project costs.

H.R. 8 is based on the premise that the 1954 agreement between the Department of the Interior and Army and the Federal Power Commission is a departure from congressional intent, because it establishes cost allocation procedures which not only fail to recognize the general proposition that power is usually an incidental purpose, but, in fact, goes far beyond, and effectively holds that for practical purposes power is never an incidental purpose.

It is true that there may be some projects in which power is a principal feature. And in such cases, use of the separable costs-remaining benefits methods or the alternative justifiable expenditure method would be appropriate. We feel, however, that the general rule should favor the incremental method upon the presumption that power is, in most cases, an incidental purpose.

RECOGNITION OF FUTURE DEVELOPMENT

Section 7(1) of H.R. 8 is an attempt to recognize in the calculation of benefits attributable to a given multiple purpose project or unit, the value of future economic development in the area, and the assumption, in calculating such benefits, that comprehensive basin development will proceed in an orderly manner.

There has been substantial administrative reluctance to accept and utilize initial appropriations for the first units of comprehensive river basin developments on the ground that the benefits attributable to the initial units will not accrue until other projects of the plan are completed. This problem arises especially in the case of developments which include navigation and power facilities. A given navigation channel is, of course, not usable until each of the locks and dams constituting it are complete.

This section of the bill may be merely declaratory of existing practice in some instances, but it should be establishd as a statutory standard to guide all of the affected construction agencies.

TAXES FORGONE

Section 7(3) of H.R. 8 is an attempt to preclude application of the "taxes forgone" provision of Budget Bureau Circular A–47.

Paragraph 8(h) of that directive reads as follows:

"Value of electric energy to be produced: This is equal to the lower of two figures: (1) The cost of equivalent energy from the cheapest alternative source of energy—private, Federal, or other—that is available or could be expected to develop in the absence of the project, to meet the same power need. Taxes and interest charges for this alternative source should be computed on a basis comparable with the project * * *; (2) value of power to users (considered as the highest price they would pay, and applicable especially where the cost of alternative power would be prohibitive for particular users)."

This language makes mandatory upon the Federal power construction agency the calculation of power benefits based upon the cost of securing alternative power from a phantom Federal steamplant which would be the most unlikely of any imaginable alternative to actually develop.

It is a criterion which causes the power facilities of many multiple-purpose projects to appear less desirable, and, in some cases, reduces below unity the benefit-to-cost ratio of power features.

Thus on June 10, 1957, the House Committee on Public Works, in considering authorization of power features for the Lone Rock and Gilbert Reservoirs, on the White River, was told by the Corps of Engineers that the benefit-to-cost ratio, considering taxes forgone, would be 0.83 whereas were this test not applicable, the benefit-to-cost ratio would be 1.1 and no question would arise concerning the economic justification of the authorization.

The theory of "taxes forgone" is economically unsound. For, although a small increment of tax revenue might be created were a private plant constructed in lieu of the Federal project, it does not necessarily follow that because a Federal plant is substituted for the private plant, an equivalent reduction in tax collection would occur.

Experience is just the converse. It indicates that the construction of a Federal multiple-purpose project generally stimulates the local economy to the extent that tax revenue from the geographical area in which the project is located increases substantially.

The "taxes forgone" provision of Budget Bureau Circular A–47 is not based on statute.

During hearings by the House committee on the 1957 rivers and harbors omnibus bill, the chairman of the Rivers and Harbors and Flood Control Subcommittee of the Senate Committee on Public Works, appearing as a witness, questioned the chief of engineers as follows:

"Senator KERR. I would like to ask my good friend, the chief of engineers, if he knows and if he can tell this committee how many of them (projects) are on the statute books today carrying the burden of the principle of taxes forgone.

"General ITSCHNER. I do not know of any hydroelectric projects that are authorized today that have the provisions in it."

PROTECTION OF IRRIGATORS

Section 8(a) of H.R. 8 is intended to be declaratory of existing Federal policy by which that portion of project construction cost allocated to irrigation and beyond the ability of the irrigators to repay may, to the extent necessary, be recovered from the establishment of an appropriate rate for commercial power.

A REASONABLE PAYOUT PERIOD

Section 8(a) of H.R. 8 establishes project payout period as the useful project life or 100 years, whatever is the shorter. This is an attempt to conclusively controvert paragraph 14(a) of Budget Bureau Circular A–47 which limits the repayment period to the lesser of the useful project life or 50 years.

The 50-year limit established in Budget Bureau Circular A–47 is, with respect to Corps of Engineers projects, not required by law.

Section 5 of the Flood Control Act of 1944 specifies:

"Rate schedules shall be drawn having regard to the recovery (upon the basis of the application of such rate schedules to the capacity of the electric facilities of the projects) of the cost of producing and transmitting such electric power, including the amortization of the capital investment allocated to power *over a reasonable period of years.*" [Italic supplied.]

H.R. 8 contains the implication that the phraseology "reasonable period," when considered in connection with the durability of earth and concrete structures, should not be arbitrarily limited to 50 years.

During the 1956 hearings held by a subcommittee of the Senate Committee on Public Works to investigate the need for a Federal power rate increase in the Southwest, the chairman of the subcommittee asked Mr. Wright, the Administrator of the Southwestern Power Administration:

"Senator KERR. Now what is your opinion, and I am going to ask the engineers about this also, and if you do not have an opinion you do not need to give it, but I have a lot of respect for your engineering ability as well as the Army engineers—what is your opinion as to the average useful life of these flood-control projects in this group of seven?

"Mr. WRIGHT. I think there are some of them down there that are good for at least a thousand years. I think that we have none in the area that is not good for at least 150 years that are included in this study.

"Senator KERR. Would you think the average life of them would reasonably be estimated at 500 years?

"Mr. WRIGHT. I do, sir."

It is generally conceded that the revenue from the hydroelectric features will accrue to the Federal Government for a period in excess of 50 years. No reason is, therefore, apparent why the payout period cannot be calculated to run coincidentally with the anticipated useful life expectancy of the reimbursable features of the project without regard to arbitrary limitations such as the 50-year period specified in Budget Bureau Circular A–47.

INTEREST RATES

Section 8(a) of H.R. 8 seeks also to stabilize the rate of interest applicable to funds invested in multipurpose projects, by providing that the interest rate shall be equivalent to the average rate of interest borne by all marketable, interest-bearing obligations of the United States during the 15 years preceding the appropriation of initial construction funds.

In our opinion, this provision will minimize fluctuations in the interest rates applicable to successively authorized projects resulting from short-range variations in the cost of money.

RETROACTIVE APPLICATIONS

Section 9 of H.R. 8 would apply its substantive provisions to multiple-purpose projects previously completed. Section 10 excepts from the provisions of section 9 TVA projects and projects for which cost allocations have been previously determined by Congress.

RECOGNITION OF ALL BENEFITS IN DOLLAR TERMS

Section 5 of H.R. 8 would implement the language of section 3 by requiring that in submitting reports and recommendations to Congress for project authorization and appropriations, such reports would be based upon the study of an entire basin. This section also would be to some extent declaratory of existing policy but would assure administrative adherence and preserve uniformity of future studies.

Section 5(b) is an attempt to assure that all recognizable benefits will be included in benefit-to-cost ratios, and that all benefits, to the extent possible, will be expressed in dollar values.

Paragraph 14(j) of Budget Bureau Circular A–47, Revised, provides:

"Until standards and procedures for measuring secondary benefits are established by amendment of this circular, the benefit-cost analysis of any program or project shall be based upon primary benefits * * * despite the importance of effects which are local or regional rather than national in character, such effects shall not be considered as part of the benefits-cost analysis; rather these effects shall be fully evaluated as part of the analysis of the relation of the project to sound local and regional economic developments * * *" and

Paragraph 15 of Budget Circular A–47, Revised, provides that—

"The associated costs to be incurred and induced costs which will result from a proposed program or project shall be subtracted from benefit estimates before a comparison of benefits and costs is made. Induced costs shall be evaluated as extensively and fully as benefits * * *."

In effect, Budget Bureau Circular A–47 precludes the use of secondary benefits in the benefit-cost analysis, but requires the inclusion of so-called induced or indirect costs in such calculations, thereby seriously impairing the validity of apparent project evaluation studies.

An excellent example of the problem of evaluating intangible benefits was presented during the 1955 Senate hearings on S. 1164 before a subcommittee of the Senate Committee on Public Works. S. 1164 would have authorized the Corps of Engineers and Bureau of Reclamation to include in benefit-cost ratio calculations a dollar evaluation of recreational benefits.

During those hearings, the Assistant Chief of Engineers for Civil Works testified that although the corps does evaluate recreational benefits generally, such evaluations are not submitted to Congress and are not included in computation of benefit-cost ratios.

Senate bill 1164 as proposed would have provided that where reservoir areas are developed by the Secretary of the Army or the Secretary of the Interior, the annual recreational benefit shall be calculated as equivalent, in dollars, to the number of persons which might reasonably be expected to utilize the recreational facilities during a year, but not to exceed 15 percent of annual project costs.

During the 1957 Senate hearings on S. 1164, the Corps of Engineers testified that during 1955, some 62,522,000 persons utilized the recreational facilities at reservoirs under its jurisdiction. The Bureau of Reclamation testified that 8,703,000 persons used the recreational facilities at reservoirs under its jurisdiction during the same year. Yet no recreation benefits are generally calculated in the benefit-cost ratios.

It appears that, with respect to recreation benefits alone, a major factor favoring multiple-purpose project construction is substantially ignored. And to the extent that because of this fact the benefit-cost ratios of some projects are less than one, then to that extent we are deprived of the opportunity to develop a sound water resource project.

UNECONOMIC INCREMENTS

Section 5(c) of H.R. 8 provides for the permissive inclusion in multiple-purpose projects of units or features which, although themselves exhibiting a benefit-to-cost ratio of less than unity, would not reduce the total unit or project benefits below costs. In brief, it is a provision to allow the inclusion of uneconomic increments of benefit in a project that would not thereby be made uneconomic as a whole.

Under present administrative policies, the entire plan for a particular comprehensive river basin development plan must show an overall benefit-cost ratio in excess of unity as must each unit of such plan and each facility of each unit. This necessarily means that, in some cases, desirable features, such as municipal water supply or hydroelectric power, may be excluded from a particular unit or project because, as measured by the particular criteria in vogue at that time, they may not show a benefit-to-cost ratio above unity.

Let me emphasize that this part of the bill is not mandatory. It is permissive only and expresses the sense of the Congress that uneconomic increments may be included in multiple-purpose projects, at the discretion of the agencies responsible for administering the law, provided that the overall economic justification of the project is not destroyed.

CONCLUSIONS

It is anticipated by those who have developed and advocate H.R. 8 that considerable objection to it will be raised. Constructive criticism is welcomed and the advocates of the bill will accept such amendments as may be necessary to prevent damage to other interested parties, provided, of course, that such amendments do not destroy the major provisions. It is suggested, however, that in view of the widespread acknowledgment of a need for this type of legislation, there rests upon the critics of H.R. 8 a burden to accompany their criticism with affirmative suggestions for an alternative approach.

Those who support H.R. 8 believe that the Nation can no longer afford to tolerate project justification and cost allocation procedures so restrictive that water resource development is brought to a standstill. For to adopt a program based upon criteria of this nature is to make that criteria the master of the people rather than their tool.

Reference is made, in this connection, to the testimony of the Commissioner of Reclamation, the Honorable William A. Dexheimer, offered before the House Committee on Interior and Insular Affairs on Wednesday, March 30, 1955, during a discussion by the committee of Budget Bureau Circular A–47. The following exchange took place:

"The CHAIRMAN. Without going into detail, Mr. Dexheimer, can you state whether or not any project now under study, and contemplated for authorization, could comply with the standards set up in A–47?

"Mr. DEXHEIMER. With the liberal interpretation of secondary benefits as a part of it, and utilizing the 50 years, plus the 10-year development period, we have some that could come within that circular.

"The CHAIRMAN. What are they?

"Mr. DEXHEIMER. The Ventura project would be one, in California, I believe * * *. But if you strictly construe the budget circular to the 50-year limitation, there are very few, if any, of our projects that would qualify.

"The CHAIRMAN. In other words, it is fair to say that, except perhaps for the Ventura project in California, we would be at the end of the rope if we strictly applied the provision of this circular?"

EXHIBIT A

MARCH 12, 1954.

COST ALLOCATION

AGREEMENT AMONG DEPARTMENT OF THE INTERIOR, DEPARTMENT OF THE ARMY, AND FEDERAL POWER COMMISSION

Costs of a multiple-purpose project shall be allocated among the purposes served in such a manner that each purpose will share equitably in the savings resulting from combining the purposes in a multiple-purpose development.

Acceptable methods (see attachment for brief description)

(1) *Separable costs-remaining benefits methods.*—This method is considered preferable for general application.

(2) *Alternative justifiable expenditure method.*—This method differs from (1) only in employing specific costs of the various functions rather than their separable costs. It is acceptable where the necessary basic data to determine separable costs are not available and the time and expense required to obtain the data are not warranted.

(3) *Use of facilities method.*—This method is acceptable where the use of facilities is clearly determinable on a comparable basis and where use of this method would be consistent with the basis of project formulation and authorization.

Minimum allocation

Each purpose shall be allocated, in every case, at least its separable cost (the cost traceable to its inclusion in a multiple-purpose project). Limitations of basic data may occasionally require the use of specific cost (the cost of features identified solely with a single purpose) and other available data as constituting the best available basis for approximating separable costs.

Legislative history

The legislative history of authorized projects shall be considered in the allocation of cost. The authorizing act, committee reports, project justification documents, and similar sources disclose the nature of the proposal submitted to the Congress and of congressional action thereupon.

Consideration of economic costs

In applying any one of the above allocation methods, taxes in an amount equal to those which would be forgone as a result of Federal development of the power rather than the most likely alternative development shall be included as an economic cost when distributing costs among the project purposes for analysis of economic justification, but shall be subtracted from the costs thus distributed to power in order to obtain the allocation of project costs to power.

Value of power

The value of power produced means the estimated market value which would be obtainable if it were to be sold on an open competitive basis, without restriction as to use or resale. The value of power shall be determined as the lower of two figures:

(1) The estimated actual cost of equivalent power from the most likely alternative source that would be expected to develop in the absence of the project, to meet the same power needs, with appropriate adjustment for transmission costs and losses and other technical factors.

(2) Estimated value of power to users. (Applicable where costs of alternative power would be prohibitive either for part or all of the power produced.)

The value of power, determined as indicated above, shall be used for computations of economic benefits in project justification and for the allocation of project costs. It will not be used to establish the level of power revenues, which are

based on the amortization of projects costs (Federal power investment) over a reasonable period of years.

Project feasibility

Criteria of project feasibility shall be such that, insofar as can be determined in advance:

(1) Projects will be considered economically feasible when the value of power (as defined above) will at least equal the project costs allocated to power, plus the amount of taxes which would be forgone as a result of Federal development of the power rather than the most likely alternative development.

(2) Projects will be financially feasible, i.e., they will have potential net revenues from power sales sufficient to reimburse the Federal Government for the Federal investment in power.

Brief description of methods of cost allocation

The separable costs-remaining benefits method has the following steps:

(1) The benefits of each purpose are estimated.

(2) The alternate costs of single-purpose projects to obtain the same benefits are estimated.

(3) The separable cost of each purpose is estimated.

(4) The separable cost of each purpose in the multiple-purpose project is deducted from the lesser of each purpose's benefits or alternate cost The lesser figure is used since alternate cost is used in this method only if it represents a justifiable expenditure, that is, if it does not exceed the benefits.

(5) From total cost of project deduct all separable costs to determine residual costs.

(6) Residual costs, designated as joint costs in this method, are distributed in direct proportion to the remainders found in step 4.

(7) To determine the cost allocated to each purpose, add the separable and distributed costs for each purpose and, in the case of power, subtract from that sum the amount of taxes forgone which was used in computing power costs under steps 2 and 3 above.

The alternative justifiable expenditure method has the following steps:

(1) The benefits of each purpose are estimated.

(2) The alternate costs of single-purpose projects to obtain the same benefits are estimated.

(3) The specific cost of each purpose is determined.

(4) The specific cost of each purpose in the multiple-purpose project is deducted from the lesser of that purpose's benefits or alternate cost. The lesser figure is used since alternate cost is used in this method only if it represents a justifiable expenditure, that is, if it does not exceed the benefits.

(5) From total cost of project deduct all specific costs to determine joint costs.

(6) Joint costs of the multiple-purpose project are distributed among purposes in direct proportion to the remainders found in step 4.

(7) Allocation of project cost is determined in the same manner as under the separable costs-remaining benefits method.

The use of facilities method has the following steps:

(1) The use which is made by each purpose of joint project facilities is estimated on some basis which is comparable for the purposes concerned, using such measures of use as those of flow, reservoir capacity, energy consumption, and others as may be applicable.

(2) The separable cost of each purpose is estimated. (In cases of minor importance specific rather than separable costs may be used.)

(3) From total cost of project deduct all separable costs to determine joint (residual) costs.

(4) Joint costs of the multiple-purpose project are distributed among purposes in proportion to the comparable measures of use of the joint facilities estimated in (1).

(5) To determine the cost allocated to each purpose, add the separable and distributed costs for each purpose and, in the case of power, subtract from that sum the amount of taxes forgone which was used in computing power cost under (2) above.

EXHIBIT B

TABLE I.—*Comparison of project cost allocated to hydroelectric power according to the allocation method used*[1]

Project	Total cost	Separable costs-remaining benefits	Alternative justifiable expenditure	Priority of use	Use of facilities	Incremental	Specific costs
		Percent	*Percent*	*Percent*	*Percent*	*Percent*	*Percent*
1. Fort Peck, Mont.	$158,300,000	53.1	55.3	40.0	49.7		25.1
2. Garrison, N. Dak.	295,000,000	55.0	56.9	43.0	52.0		35.2
3. Oahe, S. Dak.	356,800,000	57.9	59.5	46.2	54.8	[2] 51.2	33.1
4. Fort Randall, S. Dak.	*195,000,000*	*71.4*	*71.6*	*58.8*	*69.2*		39.6
5. Gavins Point, S. Dak.	53,000,000	82.1	81.9	66.8	82.8		47.7
6. Norfolk, Ark.	28,700,000	65.5	63.5	46.6	72.8	49.0	26.6
7. Table Rock, Ark., Mo.	*68,700,000*	*76.7*	*74.6*	*69.3*	*81.2*	*68.8*	23.2
8. Bull Shoals, Mo.	76,329,000	56.6	55.8	47.0	65.5	56.2	25.4
9. Denison, Tex., Okla.	62,208,000	42.8	44.8	31.8	60.8	31.8	21.4
10. Whitney, Tex.	*43,988,300*	*18.2*	*17.3*	*18.2*	*23.6*	*18.2*	14.6
11. Fort Gibson, Okla.	44,857,000	37.3	39.7	36.3	43.6	36.2	28.6
12. Tenkiller Ferry, Okla.	23,772,000	51.8	47.4	51.7	64.2	51.8	35.3
13. Narrows, Ark.	13,239,000	40.4	36.6	*40.4*	*66.3*	*40.4*	*21.6*
14. *Blakely Mountain, Ark.*	*30,800,000*	*75.2*	73.1	65.0	76.3	66.3	40.7
15. McNary, Oreg., Wash.	284,825,800	91.6	91.6	91.6	62.7	52.3	44.7
16. The Dalles, Oreg., Wash.	*270,000,000*	*91.6*	*91.6*	91.5	73.8	61.1	53.0
17. Bonneville, Oreg., Wash.	82,055,000	69.3	69.6	49.4	68.7	47.4	*43.9*
18. *Colorado-Big Thompson*	158,999,000	41.9	38.9	35.8	[4]	35.8	26.8
19. Colorado River storage	[3] 609,419,000	91.0	90.9	85.8	[4]	64.7	56.0
20. *Fryingpan-Arkansas*	*156,541,000*	*28.5*	*28.4*	*24.6*	[4]	24.6	23.5
21. Boulder Canyon	163,370,413	72.1	76.4	48.3	[4]	48.3	48.3
22. Columbia Basin	271,477,000	80.6	83.8	73.1	[4]	57.2	40.9
Total cost	3,447,378,513						
Average percentages		61.3	61.3	53.8	62.8	50.8	34.7

[1] Source: Supplemental memorandum of chairmen to members of Senate Committee on Interior and Insular Affairs, and Public Works, Jan. 24, 1957; based on data supplied by the Corps of Engineers and Bureau of Reclamation.

[2] *Average for system composed for Fort Peck*, Garrison, Oahe, Fort Randall, and Gavins Point. No data on individual projects given.

[3] Includes: Glen Canyon, Flaming Gorge, Curecanti, and Navajo.

[4] *Not given.*

STATEMENT OF LLOYD EVANS, PRESIDENT OF BOARD OF TRUSTEES OF KAMO ELECTRIC COOPERATIVE OF VINITA, OKLA.

Mr. Chairman and gentlemen of the committee, my name is Lloyd Evans. I live in the village of Fairfax, Okla. *I am a member of the board of trustees* of Indian Electric Cooperative of Cleveland, Okla., and I am president of the board of trustees of KAMO Electric *Cooperative of Vinita, Okla.*

KAMO is a transmissioin cooperative composed of a membership of 21 distribution cooperatives. The power supply of 14 of these is provided through *KAMO, and the major* part of this power comes through KAMO's contracts with the Southewstern Power Administration.

This is the reason that KAMO and its cooperative members are so vitally concerned in the passage of the Trimble bill (H.R. No. 8) which is now before *this committee of Congress for* consideration.

We believe the passage of the Trimble bill will help, to a wonderful extent, in keeping stable and equitable the basic power rate to the rural electric cooperatives; and it must be pointed out that a fair and equitable basic power rate is the most vital element in the successful operation of the rural electric cooperatives.

There is an urgent need for this stabilization of rates for power to the cooperatives. The enormous investment in rural electric cooperatives is of very much importance in the economy of our Nation, both in wartime and in peacetime, and has proven, and is proving, its great force for the general welfare and progress of our millions of rural people.

Other witnesses before this committee are presenting testimony of pertinent facts and detail to support our position in urging passage of the Trimble bill (H.R. No. 8). The information they give is comprehensive, and we trust you will find it sufficient and convincing.

We have great respect for the wisdom and integrity of this Congress. We know the honorable members of this committee will weigh all the facts persented, and we hope you will take favorable action toward passage of the bill.

I thank you for your time and attention and wish to express my appreciation for the privilege I have had of making this brief statement in support of the Trimble bill.

STATEMENT BY HENRY WENCL, VICE PRESIDENT, KANSAS ELECTRIC COOPERATIVES, INC.

The Kansas Electric Cooperatives, Inc., 420 West Ninth Street, Topeka, Kans., representing 37 Kansas rural systems support H.R. 8 (Trimble bill).

Although Kansas receives very little power from generation installed at the multipurpose dams we are vitally interested in the comprehensive basin development, and recognition to all beneficiaries of basin development. We believe H.R. 8 will correct the cost allocations. Irrigation, flood control, navigation, and recreation should bear their correct portion of cost of any multipurpose dam built or to be constructed. The high cost allocated to generation under present method seems unfair as these costs have to be reflected in wholesale power rates.

The payout period now is set at 50 years. The useful life of the installations run well over 100 years. The payout cost should be extended to the anticipated life at the installation. This procedure will also make for more realistic allocated costs of the project and would result in lower costs for irrigation, electric power, and other benefits derived from the multipurpose dams.

The problem of adequate water supply is a national concern. Industry, agriculture, cities, and citizens are using water in increased quantities. We need to accelerate multipurpose water resources development, H.R. 8 will speed development by establishing uniform progressive laws to guide administrative agencies and reducing wide policy variations between separate government agencies.

For these reasons, the Kansas Electric Cooperatives, Inc., support H.R. 8 (Trimble bill), and hope this committee will act favorably on this bill.

STATEMENT OF ERNEST C. WOOD, MANAGER, FARMERS' ELECTRIC COOPERATIVE, INC., CHILLICOTHE, MO., IN SUPPORT OF H.R. 8

Mr. Chairman and gentlemen of the committee, my name is Ernest C. Wood and I reside at Chillicothe, Mo. I am appearing before your committee in the interests of Farmers' Electric Cooperative, which I manage, also of N.W. Electric Power Cooperative, Cameron, Mo., which is a generation and transmission cooperative, supplying power to eight distribution cooperatives in northwestern Missouri.

Our support of H.R. 8 is in the interest of establishing criteria which will insure stability in the costs of wholesale power. N.W. Electric Power Cooperative has interchange of power arrangements with SPA by which costs of power are influenced in sales by N.W. to its member cooperatives. We have experienced power cost increases, resulting from SPA rate increases, based on limiting criteria and placing major emphasis on allocations to power in the construction of hydro facilities in the SPA area.

In the Southwest, original purpose of approved dams was basically for flood control, with resultant benefits to navigation. Subsequently, Congress approved installation of facilities for power production.

This change recognized power production to be an incidental byproduct resulting from dam construction, yet we find allocations of project cost to power production has been set at nearly 80 percent for recently completed Table Rock Dam in southwest Missouri.

In the Southwest the reservoirs are planned as multiple-purpose projects in most cases, a few small ones being basically for flood control. In multiple-purpose use many requirements are met beyond flood control, navigation, and

power production. Water supply is receiving major attention and recreation is becoming a major resultant benefit.

At the dedication of Table Rock Dam on June 14, 1959, the Assistant Secretary of the Army stated that 2.5 million persons visited the Bull Shoals Reservoir in 1958 in recreational pursuits. The State of Missouri predicts that 15 million tourists will visit the State in 1959, attracted by Missouri's recreational facilities, of which Bull Shoals and Table Rock Reservoirs are a basic part.

We support H.R. 8 because it broadens the base of cost allocations by evaluation of many benefits to result from construction of these multiple-purpose projects. H.R. 8 also would help eliminate the confusion and conflict now existing among the several agencies of Government in rival attempts to allocate costs and fix power rates by placing final discretion with the Congress of the United States.

For the above and other reasons we urge enactment of H.R. 8 into legislation.

STATEMENT OF CECIL NEELY

Mr. Chairman and members of the committee, my name is Cecil Neely. I am the manager of the Northfolk Electric Cooperative at Sayre, Okla. We have approximately 3,100 members in the extreme western part of Oklahoma.

I have been with the cooperative since April 15, 1943. In 1947 and 1948 our area coverage survey showed we had a potential of 4,400 to 4,500 members. Our board of trustees accepted their responsibility as directors of a true cooperative and adopted a policy to serve everyone within the cooperative area that desired electric service and even though the average density would be two to the mile or less, contracts were let. The cooperative employed a large construction crew and lines were erected as rapidly as possible to provide all these people with electric service.

By 1950, our membership began to decline and has declined constantly every year until now. The tragic thing is that all these people are gone. The cooperative has borrowed money to install lines, poles, and transformers that are no longer in use and we still have the obligation of this indebtedness to the U.S. Government.

Repayment of course, has to be done with a less number of people and increased cost of operation and maintenance. The board of trustees have exerted every effort humanly possible to accelerate sales through a power use program of the cooperative to offset these losses, however, nature imposed its hardships upon our people by a 5-year drought. Our farmers financial obligations to the banks increased through these years and they purchased very little equipment other than the bare necessities.

In August 1957, an increased rate by the Southwest Power Administration became effective which was publicized as a 27-percent increase, but actually was a 33⅓-percent increase because of the ratchet clause.

This put our cooperative in serious financial condition. Previously, we had not been making debt service and with this rate increase, we were not able to set up the 1 percent of our plant which is the suggested percentage for renewal and replacement. As a result, in January 1958, our board of trustees put into effect a rate increase. This of course, has a natural reaction to cause people not to buy additional electrical equipment and to attempt minimizing their uses of electricity.

Our No. 1 interest in this Trimble bill is that it places in the hands of Congress the sole authority for cost allocation on multipurpose dams. We have confidence in the Congress of the United States. We believe as history has proven, the Congress will protect the people of these United States.

We believe that as Congress authorizes these multipurpose dams, studies the reports of the U.S. Corps of Engineers, and determines that they are feasible and justifiable, and they are using certain basic principles, which if they are projected into the rate formula of these multipurpose dams, it will provide protection for both the Government and its people without discrimination.

We believe the Trimble bill will do several important things. It should establish definitely the administrative agency responsible for the functions of marketing and pricing of power. It should provide a uniform method of cost allocation between all agencies having water development responsibilities. It should be the responsibility of Congress at the time they study and approve the appropriations for the construction of multipurpose dams, to spell out the life

expectancy or useful expectancy of the projects, thereby eliminating the phrase, "reasonable time," which is a matter of judgment.

We do not believe that the legislative history authorizing these projects is now being considered in the administration of the functions of these multipurpose dams and that the Congress of the United States is neglecting an important function of Government unless they assume the responsibility and specify the method by which this business is to be conducted.

We believe the Trimble bill will give the operations of this business back to the people through the Congress of the United States.

STATEMENT OF P. E. DUNKLEBERGER

Mr. Chairman and members of the committee, my name is P. E. Dunkleberger. I reside in Cordell, Okla., and am manager of Kiwash Electric Cooperative. My cooperative distributes electrical power to 3,752 rural consumers located in 5 counties of western Oklahoma. It is in behalf of these 3,752 rural consumers that I submit my statement to you.

Our people in western Oklahoma earn their living primarily from the soil and by nature are individualists. It is not the intent of this statement to request any assistance, financial or otherwise, from our Government. It is our desire to pay a fair and reasonable price for everything we purchase. We do feel, however, that certain problems with which we are confronted in our electric cooperative can be alleviated if more sound business principles are applied in determining the price and the marketing of hydroelectric power which by necessity represents a rather large proportion of the electric energy that we use.

In the last few years our wholesale power cost has fluctuated because of changes in allocations of cost of flood-control dams in the southwest area. From the information we have received, we canont determine to our own satisfaction whether or not these changes were justified economically, but we have arrived at the determination that we must have more stability in our wholesale power cost in order that we can properly plan our financial requirements and power needs. We attempt to analyze our own cooperative's needs and resources periodically and estimate to the the best of our ability our objectives and requirements for 2, 5, and 10 years in advance. This has proven to be an absolute necessity for our cooperative if we are to continue to provide our members with an adequate and dependable supply of power at a reasonable price based on sound business principles.

It appears to us that in recent years the multiple-purpose projects constructed under the jurisdiction of the Corps of Engineers have been improperly designated as hydroprojects. We as farmers for many, many years have supported and encouraged these various projects, thinking all the while that their primary purpose was that of flood control. Perhaps there has been some deviation from the original purpose of these projects. To us the conservation of our soil is, and should still be, the primary function of the majority of the multiple-purpose projects. Certainly there are many benefits derived from these projects, many of which are incidental, but should defray their proportionate share of the cost. If the present attitude of our Government agencies continues, then we can only believe that the real intent of Congress has been misconstrued and that our present problems arising therefrom will only develop into an economic dilemma.

In operating our electric cooperative, one of the first principles that we recognize is that the electric business is inherently a high-volume, low-unit-cost type of business. In recognizing this principle, we have adopted the objective that as the general level of prices increases our main avenue of success and security lies in our ability to spread these increased costs over a greater number of units, i.e., kilowatt-hours. In our attempts to implement this objective, we find that the salability of our product has been lessened because of the change in administrative policies influencing the cost of our wholesale power. We have proven to ourselves beyond a reasonable doubt that there is a positive correlation between the usage of a kilowatt-hour and the price of a kilowatt-hour. When we are forced to increase our rates to our farmers, we find their usage does not continue to increase at the same rate as it does when we can hold our rate at the same level over a period of time. We have dedicated ourselves to promote the most widespread and abundant use of electric power and energy in our area. We can see the effect of this objective in the standard of living of our people.

We do not, however, permit our objectives to deviate from reality, and in this sense we recognize that if we are to continue to utilize hydroelectric power then its cost to us must be held at a reasonable figure.

It is difficult for us to understand why agencies of our Government insist upon an amortization period for project facilities that is not commensurate with their usable life. We practice and have felt all along that it is only proper to amortize a given facility during the period which it serves a usable purpose and benefits are derived therefrom. We have been advised by experts that the facilities installed in these multiple purpose projects in the southwest area have a life expectancy of from 150 years to 1,000 years. We in our cooperative really do not have any way of knowing. We do feel, however, that some reasonable element of time could be established that would be nearer to the life expectancy of the facilities than the 50 years now used.

Mr. Chairman, it is our belief that the provisions contained in House Resolution No. 8 will help clear up some of the inequities now existing in our present method of administering and determining the cost and marketing of hydropower.

STATEMENT OF J. L. JOHNS, MANAGER, UPSHUR-RURAL ELECTRIC COOPERATIVE CORP., GILMER, TEX.

Mr. Chairman and members of the committee, my name is J. L. Johns. I am manager of Upshur-Rural Electric Cooperative Corp., Gilmer, Tex.

The organization I represent is located in parts of 10 northeast Texas counties and is serving approximately 10,000 members with 2,400 miles of rural distribution lines. The farming operations in this area are small units with a number of dairy and poultry farms of which their very economic existence depends upon the cooperative serving them with dependable, low-cost electric power.

My appearance before this committee today is to appeal to you that in my opinion the Congress of the United States needs to pass legislation that will give stability to the wholesale power rates to power generated at multipurpose projects owned by the Government. I want to make myself clear now that I am not asking for a subsidized power rate, but at the same time in my opinion the rates charged now are not realistic in that they do not carry out the original intent of the Flood Control Act. It is my understanding that the primary purpose of any dam constructed under the Flood Control Act are for flood control, and any other benefits are incidental and must stand on their own footing costwise. I cannot agree that this has been the case as to cost of generation of power in the SPA area. From information that I have, power is paying for approximately 60 percent of the total cost of the projects in the SPA area.

In 1956 costs were reallocated in the SPA projects, which resulted in an increase of approximately 25 percent in the cost of power to the cooperatives. In the Southwest area the cost of wholesale power from Federal projects is the yardstick. I would like to give you an example. We were purchasing approximately one-third of our power requirements from SPA in 1956, and the balance from Southwestern Gas & Electric Co. Our rates were practically the same from both sources, approximately 5.6 mills per kilowatt-hour. Immediately after SPA announced it proposed to increase its cost of wholesale power to us, the power company also notified us they were invoking the fuel clause in our contract, although a short time before the president of the power company told a group of cooperative representatives that the company would not invoke the fuel clause until the price of gas reached 25 or 26 cents per million B.t.u. At this date the company is paying less than 20 cents per million B.t.u. for gas, but our power cost has increased between 25 and 30 percent, or to the level of the cost of power we purchase from SPA. The point I am trying to make is that in my opinion Congress should have the responsibility of setting the formula for the cost of power from Federal hydroprojects, which should include the cost of the generating facilities and other directly related cost, and cost of such projects should be amortized over the life of the projects based on sound engineering, which I understand exceeds 100 years on the majority of hydroprojects. In my opinion the increase in the cost of power from SPA in 1956 was not based on realistic engineering data as to actual cost of power facilities but power cost allocations were increased so that overall wholesale cost of power could be increased.

To me it is not good judgment to let administrative agencies have the power and responsibilities of setting the formulas of allocating the cost of power from Government multipurpose projects. I understand that hydroelectric power has been charged up to 90 percent of the total cost of the project. I cannot under-

stand how a project could be called a flood control project with power paying 90 percent of the cost. If you will excuse the expression it looks to me like the tail is wagging the dog on a number of the multipurpose projects.

In conclusion I respectively ask this committee to give a favorable report on H.R. 8 and seek the passage of this legislation so that the responsibilities of allocating cost on multipurpose flood control projects will be vested in Congress rather than to the whims and wills of an administrative agency.

I thank you gentlemen for the opportunity of appearing before you.

STATEMENT OF J. S. ROBBINS, MANAGER, JEFFERSON DAVIS ELECTRIC COOPERATIVE, INC., JENNINGS, LA.

Mr. Chairman and gentlemen of the subcommittee, my name is J. S. Robbins of Jennings, La. I am manager of the Jefferson Davis Electric Cooperative, Inc., an REA cooperative serving approximately 3,552 (3,850 before Hurricane Audrey) consumers in 5 parishes in southwest Louisiana. I am here representing the Statewide Louisiana Electric Cooperative Association composed of the 13 REA co-ops serving over 130,000 farm families in Louisiana (over 50 percent) and also a member of the Advisory Committee on Power for the Southwest representing the six-State area.

Your favorable consideration of the Trimble bill is earnestly and sincerely requested. We believe that passage of the Trimble bill will place responsibility of the allocation of costs on multipurpose projects back in the hands of Congress for approval and decision itself, will stabilize rates on an equitable basis, will maintain 100-year payout, and have a favorable economic effect on the farm and rural areas as well as the feasibility of future projects.

The Southwestern Power Administration, although not having power directly available to Louisiana does have a sea-level effect in Louisiana and the whole Southwest area. As an example, the rural electric cooperatives in Louisiana, approximately 9 years ago, were experiencing an 8.25 mill wholesale power rate, which, in our opinion, was an unreasonable rate. Organization of a generation-transmission cooperative by the 13 co-ops in Louisiana with the intent of borrowing money from REA to build a generation plant to serve our Louisiana cooperatives with wholesale power resulted in the commercial companies immediately extending a new contract with lower and more reasonable rates. Needless to mention, the rate extended by the commercial companies and accepted by us was almost identical to the schedule A rate which was in effect by the Southwestern Power Administration at that time, namely, 5.6 mills per kilowatt-hour at 50 percent load factor. Therefore, no loan was obtained for the cooperatives to accomplish this purpose.

The Secretary of Interior has seen fit to change the former method by which allocation of costs to power on multipurpose projects is made resulting in a 27½ percent increase in the Southwestern Power Administration's wholesale power rate to municipalities, cooperatives and other customers. It is our understanding that this increased power rate was predicated or based upon increased allocated cost of hydropower charged to the several dams now constructed or under construction in the Southwest area by a change from the incremental to the separable-cost remaining benefits formula. If this is so, who is authorized to make this change in the formula and the allocation of cost to power? What formula is used and why or how is it that this cost has increased so greatly? We note from SPA figures that Dennison and Norfolk Dams have approximately 32.5 percent and 46.3 percent respectively, of the total cost charged to power. The Congress approved the costs to be allocated to these two dams which were based on the incremental formula. Therefore, these could not be changed without approval of the Congress. Allocation costs of other dams in the area which Congress did not themselves approve are as follows: Bull Shoals 68 percent, Fort Gibson 38.9 percent, Tenkiller 50.5 percent, Blakely Mountain 75.5 percent, and Table Rock 87.1 percent. A review of these figures reveals that the costs allocated to power have been almost doubled. This seems to be an unfair method to justify a rate increase, especially since the Congress did not authorize or approve the change of formulas or cost allocation increases. Since these figures were compiled last summer we are advised that the allocations to cost of power have again been increased and are gradually adjusted upward. This means that soon another rate increase can be expected. It is also noted that very little or no charge is allocated to water

supply or conservation, recreation, navigation, polution, streamflow regulation, etc.

These matters, as now being administered, are so changeable what assurance have the municipalities, co-ops and other customers that other increases won't be forthcoming? We believe that if Congress would assert itself in regard to the formula used in the allocation of costs to power that the rates could be stabilized and future planning be accomplished on a businesslike and equitable basis.

I would like, at this point, to refer the committee to the audit reports from the General Accounting Office on the Southwestern Power Administration for the fiscal years ending June 30, 1952, 1953, 1954, 1955, and 1957.

(Excerpts from: Report to the Congress of the United States audit of Arkansas, White, and Red River Basins Water Resources Development program Corps of Engineers (civil functions) Department of the Army and Southwestern Power Administration Department of the Interior fiscal year 1957—by the Comptroller General of the United States—August 1958.)

Excerpts from 1957 are as follows:

Page 8

1. Need for firm allocations of construction costs of multiple-purpose projects and responsibility for allocations:

"Although the multiple-purpose projects including power in the Southwestern area have been in operation for several years, none of the construction cost allocations were firm at June 30, 1957."

Page 9

"Firm allocations of costs are necessary because the Federal investment in power, which is based on the allocations, is recoverable through sales of power."

Page 10

"In our prior year reports on water resources development in the Arkansas, White, and Red River Basins and in other basins, we commented upon the lack of agreement between the agencies on cost allocations, length of repayment period, and other matters. In those reports we noted that the programs are based on a large number of laws administered by several agencies and that these laws did not provide uniform policies or criteria that are fundamental in carrying out the programs. We suggested that the Congress may wish to consider providing uniform policies and criteria because we believe that:

"(*a*) The water resources program could be more effectively administered if the Congress provided policies and criteria to be applied for allocation of costs of multiple-purpose projects, the results of which serve as the basis for establishing rates for commercial power. In addition to establishing policies and criteria for cost allocations, the new legislation should provide for (1) period for repayment of construction costs, (2) rates of interest, and (3) subsidies to nonpower purposes.[1]

"(b) Until firm allocations of the construction costs are made, it would not be possible to evaluate adequately the financial administration and results from operations of multiple-purpose projects. The construction costs allocated to power and the repayment requirements must be finally determined before power rates could be properly established in accordance with section 5 of the Flood Control Act of 1944. Also, the conflicting contentions that have existed and the existing confusion on the responsibility for cost allocations could be resolved with finality only through legislative action. Accordingly, we recommend that the Congress designate specifically the agency to make or to review and approve the allocation of construction costs for multiple-purpose projects authorized for construction by the Corps of Engineers under the various flood control and river and harbor acts.

"(*c*) The Congress may wish to clarify the role of the Federal Power Commission to approve allocations of construction costs and rate schedules for sale

[1] The period for repayment of construction costs and interest rates are closely related to our comments on "Status of repayment of Government investment allocated to power," pp. 15 to 22 in this report and "Interest on the Federal investment," pp. 36 to 38 of this report.

of power from Federal power installations. Rate schedules for sale of power from projects of the Corps of Engineers are subject to review and approval by the Commission; however, authorizations for only a few projects specifically designate the Commission to make the allocations. The FPC has not been specifically designated as the allocating agency for any of the projects included in this report."

Page 14

"Both the Department of the Interior and the Corps of Engineers are to be commended for the progress made to date in interagency discussions and on agreements reached on allocations on certain projects. Because agreement has been reached on allocations of costs of projects in operation in the Arkansas, White, and Red River Basins and on certain projects in other areas, the recommendation in our prior year reports in this respect no longer applies to these projects.

"We remain of the opinion, however, that congressional action would be desirable because such action will provide uniform policies and criteria for application to Federal water resources programs undertaken in the future by the Corps of Engineers and the Department of the Interior."

Page 21

"Until such time as agreements are reached on the allocation of revenues to projects and the application of project revenues to the Government's investment, it will not be possible to show by project the status of repayment of the capital investment in power and provide information for reviews and evaluations of rates as contemplated in our prior year recommendations. Our audit for fiscal year 1957 disclosed that conditions relating to the allocation of power receipts to generating projects have not been resolved; accordingly, the recommendation in our previous reports is repeated."

The new wholesale rate schedule which has been placed in effect by the Southwestern Power Administration was further based or predicated upon a 50-year payout period, whereas, in the past a 100-year amortization period had been used. We are advised by the Engineers that the average life of the dams built in the Southwest area exceed 150 years and in some cases over 300 years. We, therefore, question the reason as to why the payout period should be reduced to 50 years when the life of the project is so much greater. Assuming that the cost allocated to power is paid out over a 50-year period, what then, will the Department of Interior do in regard to the sale of power since no further costs are to be amortized? We believe this is a matter that should be the responsibility of Congress and settled in accordance with their jurisdiction.

The REA co-ops have borrowed money from REA on a feasibility study which was predicated on an average rate in effect in the general area. Before the SPA rate increase some 30 percent of the co-ops were experiencing financial difficulties. This wholesale rate increase will cause additional co-ops to experience financial difficulties in the future. All of the REA co-ops have prided themselves on their past record of being able to operate at no cost to the taxpayers or Government and pay back their debts with interest. It is our sincere desire and wish to continue to pay our own way. If, however, we are continually faced with power increases such as the new SPA rate schedule, we will be unable to continue to serve our members of the rural area at a reasonable rate and maintain our payout status to the Government. The Southwestern Power Administration being a sea level for the wholesale rates established in the Southwest area, with the new rate increase, acts as a yardstick "in reverse." If extended to Louisiana the 27½ percent rate raise (or roughly 7.1 mills per kilowatt-hour cost at 50 percent load factor) would increase the wholesale power costs of the 13 cooperatives in Louisiana approximately $560,000 per year. This amounts to 25 percent of the present revenue based on the annual statistical report put out by the Department of Agriculture for the rural electric borrowers for 1957. Using the 1957 statistical report of the Rural Electrification Administration the new rate will cost the cooperatives in the four-State area approximately $3,200,000 increase per year which amounts to approximately 30 percent of the total revenue or income received by the cooperatives.

According to the 1957 operating statistics published by the Department of Agriculture, the following information is submitted for your study:

1957 statistics

	Number of co-ops	Number of members	Number of kilowatt-hours purchased	Cost of kilowatt-hours purchased	Estimated 1.5 mill increase	Percent power cost to revenue
Arkansas	18	131,587	336,233,013	$1,942,482	$504,349	25
Louisiana	13	111,879	373,144,824	1,634,560	559,717	25
Missouri	41	237,253	885,909,731	7,341,680	1,328,864	36
Oklahoma	26	132,959	491,192,352	3,131,269	736,788	29
Total	98	613,678	2,086,479,920	14,049,991	3,129,718	[1] 29

[1] Average.

The above figures are from the 1957 Annual Statistical Report of Rural Electrification Borrowers compiled by the U.S. Department of Agriculture.

The average cost of interest to the cooperatives, in proportion to their gross revenue is approximately 11 percent (some co-ops as low as 8 percent; the highest, 16 percent). If this is added to the 29 percent for the cost of power we have a 40-percent figure of the gross revenue of the cooperatives in the southwest area which will be spent for wholesale power and interest only. It is a most revealing fact to learn that 40 cents out of every $1 of revenue will have to be dedicated to wholesale power and interest costs only.

We believe that this SPA rate increase seriously jeopardizes the payout possibilities of the cooperatives who have increased investments in extended power facilities with the idea in mind of stabilized rates for the future. Retail rates are already high to our members, increased rates would only serve as a greater burden and retard progressive use of electricity. Therefore, Mr. Chairman, we respectfully ask this committee to help correct the confusion and inequities now existing by the various Government agencies attempting to take over authority of Congress in the formula and allocation methods now applied to the cost of power in the multipurpose projects in the southwest area. We believe that this bill will be a great step in correcting and stabilizing this situation for the future. The Trimble bill will—

1. Place the authority for establishing the allocation of costs of multipurpose projects back into the hands of the Congress where these important matters should be established.
2. It will set the amortization period at 100 years.
3. It will eliminate any future manipulation of the costs after a dam is built.
4. It will greatly assist the economy of the whole southwest area by establishing a sea level which cannot be manipulated at the will of the agencies or departments.
5. It will make possible the feasibility of future development of multipurpose dams and conservation of water.

This very inadequate attempt to present the views of the 13 electric cooperatives in the State of Louisiana, we hope, will result in some action by the Congress to solve the responsibility of allocated costs for Federal hydro projects and to set a definite method by which a fair and equitable cost can be set and approved by the Congress itself. Please be assured there isn't one of us who wants the Federal Government to subsidize our power cost. However, we do ask that the matter of allocated costs be settled once and for all. It is impossible for us to continue to run our rural businesses—paying back our obligation with interest—if our cost of power continues to increase. The history of the cost of power has been a continual reduction for the last 50 years as the volume increased. The volume is increasing greater than the demand can be met, yet cost of power seems to be jumping upward. Therefore, we request that the committee study and consider this problem and recommend to Congress a solution by adoption of the Trimble bill.

I thank all of you for this opportunity to tell you of this problem and how it affects us in Louisiana and the six-State area.

Cost Allocations

Excerpts from comments by General Accounting Office

Excerpts are taken from "Audit Report to the Congress of the United States Regarding the Activities of the Southwestern Power Administration, an Agency of the Department of the Interior," for fiscal years 1952, 1953, 1954, and 1955.

FISCAL YEAR ENDED JUNE 30, 1952

Page 1

"Of primary significance in this report are the comments and recommendation on the jurisdictional dispute between the Department of the Interior and the Corps of Engineers, Department of the Army, on the allocation of costs in multiple-purpose projects. This dispute extends also to other water resource programs in which the Department and the corps have responsibilities. * * *"

Page 2

"The act (Flood Control Act of 1944) further provides that the power rate schedules are to become effective upon confirmation and approval by the Federal Power Commission. While the Commission has given tentative approval, all rate schedules of SWPA, with the exception of those in one contract, were subject to review and reapproval not later than February 13, 1953. Upon the request of the Administration this action was deferred by the Commission. In 1952 the Department of the Interior transmitted to the Federal Power Commission a payout study showing the proposed allocation of costs applicable to 12 Corps of Engineers multiple-purpose projects in the Southwest. The proposed allocation of estimated cost of construction to power and the estimated annual cost of operation and maintenance, including amortization of the investment, show that SWPA would be able to justify rates for the sale of electric energy which are about one-half of those that would be necessary to amortize the Federal investment based on cost allocations made by the Corps of Engineers." [Matter in parentheses supplied.]

Page 16

"* * * The allocation of costs to power and to other purposes for the projects in the Southwest has not been finally resolved because of the controversy on responsibility between the corps and the Department."

Page 18

"The costs allocated to power and the annual power charges must be finally decided before any determination can be made that the rate schedules meet the requirements of section 5 of the Flood Control Act of 1944. So long as the allocations are not fixed, the adequacy of the financial administration of the power function will remain in doubt."

Page 19

"Based on information we have obtained from the interested agencies, we have concluded that the issue on the responsibility for making allocations of costs among all of the purposes served will not be resolved by these agencies. In a letter dated April 15, 1952, to the Administrator of Southwestern Power Administration, the Chief of Engineers stated:

"'The Corps of Engineers is responsible for constructing, operating, and maintaining the projects for all of the purposes involved up to the point where power is turned over to the Department of the Interior. Carrying out those responsibilities involves maintaining cost accounts and records, maintaining a comprehensive audit program covering all of the activities of the corps, and making equitable allocations of costs among all of the purposes served.'

"During the 82d Congress, a subcommittee of the Committee on Public Works, House of Representatives, held hearings to study civil works. In testifying before this committee on May 7, 1952, the Under Secretary of the Interior stated:

"'Under the Flood Control Act of 1944, the Secretary of the Interior is charged with the marketing of the power, which marketing is to be based on the allocation of costs and sound business principles. The agency which is charged with the marketing of the power cannot very well be subject to cost allocation made by one or two other agencies.'

"In testifying before this committee on May 2, 1952, the Chairman of the Federal Power Commission submitted recommendations for consideration by the committee and the Congress. Two of these recommendations are as follows:

"1. That the Congress be more definite in laying down the standards, particularly with respect to cost-allocation procedures and periods for amortization of investments, under which the power generated at Federal reservoir projects shall be sold.

"2. That the agency of the United States, if any, to which the Congress may hereafter give effective ratemaking authority with respect to the sale of power produced at Federal reservoir projects also be given complete authority to allocate the costs of such projects."

Page 20

"The subcommittee's report (House Committee Print No. 23) on the study dated December 5, 1952, stated that the agencies are operating in considerable confusion in the problem of allocation of costs and that the Congress has not been adequately specific in outlining a policy to be followed in cost allocations. In discussing the responsibility for allocation of costs the report stated:

" 'There is, however, no general legislation on the subject and no specific provision for allocating costs of any functions of either other (sic) specific projects or general categories of projects. Section 5 of the Flood Control Act of 1944 provides for the Federal Power Commission to approve rates for sale of surplus electric energy form dams built by the Corps of Engineers and for the Department of the Interior to sell such energy. This provision by implication seems to require a review by the Federal Power Commission of allocations to power at the projects involved but the absence of specific legislation leads to some confusion.'

"Three of the recommendations contained in the subcommittee's report are as follows:

"1. That all costs of a water-resource development project be allocated so that each authorized purpose of the project will bear its own fair share of these costs and share equitably in economies or savings resulting from the use of a multiple-purpose development.

"2. That the proposed allocation of costs for a project to the various purposes of water-resource development be initiated by the pertinent construction agency and that the comments of agencies properly concerned with the allocation or the project be made on such proposed allocation.

"3. That final allocations of capital cost be made only after completion of construction when all investment costs are known."

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Page 8

"The above act (Flood Control Act of 1944) does not specify the agency responsible for allocating the construction and operating costs to the various purposes on multiple-purpose projects constructed and operated by the Corps of Engineers. Both interested agencies base their claim for responsibility for making the allocations on the provisions in the basic legislation. The jurisdictional dispute between the Department of the Interior and the Corps of Engineers on the allocation of costs was discussed in detail in our audit report of Southwestern Power Administration for fiscal year 1952. At June 30, 1953, this dispute had not been resolved."

[Matter in parentheses supplied.]

Page 12

"The construction costs allocated to power and the annual power charges must be finally determined before power rates can be properly established in accordance with the requirements of section 5 of the Flood Control Act of 1944. As long as the allocations are not fixed it is impossible to state affirmatively that the accumulated income from operations is sufficient to cover the cost of producing the electric energy and to amortize the Government's investment. We were informed by the Administration that they recognize the deficiency in revenue as shown above, and it is expected that the power rate schedules will be increased in the near future."

Page 43

"* * * Because of this situation it is impossible to state affirmatively that the accumulated income from operation is sufficient to cover the cost of producing the electric energy and to amortize the power portion of the Government's investment in the projects."

FISCAL YEAR ENDED JUNE 30, 1954

Pages 9 and 10

"Section 5 of the Flood Control Act of 1944 provides, in part, as follows: * * * The above act does not specify the agency responsible for allocating the construction and operating costs to the various purposes on multiple-purpose projects constructed and operated by the Corps of Engineers.

"Our reports for fiscal years 1952 and 1953 on the Southwestern Power Administration suggested that action be taken by the Congress to end the jurisdictional dispute between the Department of the Interior and the Corps of Engineers on the allocation of costs in the multiple-purpose projects. Early in fiscal year 1954 the Department established a Cost Allocation Committee to establish principles to be used by departmental agencies in the allocation of costs of multiple-purpose projects. The committee succeeded in reaching agreement on principles to be followed within the Department, and in March 1954 representatives of the Department met with representatives of the Federal Power Commission and the Corps of Engineers to discuss principles and policies to be followed in allocating the cost of multiple-purpose projects. No written agreement resulted from these meetings. In a memorandum dated April 2, 1954, by the Assistant Secretary of the Interior to heads of bureaus and offices in the Department, it was stated that general agreement on cost allocation of multiple-purpose projects had been reached with the Corps of Engineers. The memorandum provided also for joint participation by field offices of the interested agencies of the Department in making cost allocations and for referring failures to reach agreement in the field or by staff members to the Secretary for consideration."

Page 13

"The construction costs allocated to power and the annual power charges must be finally determined before power rates can be properly established in accordance with the requirements of section 5 of the Flood Control Act of 1944."

Page 15

"* * * Because of this situation it is impossible to state whether the accumulated income from operations is sufficient to cover the cost of producing the electric energy and to amortize the power portion of the Government's investment in the projects."

Pages 36 and 37

"* * * For fiscal year 1954 we reviewed the policies, procedures, and accounting records of the Corps of Engineers district and divisional offices having responsibility for Arkansas, White, and Red River Basin projects. *The unresolved questions relating to cost allocations, depreciation, and interest on the Federal investment, however, makes it impracticable to show combined financial statements for the projects in the Arkansas, White, and Red River Basins at this time.*" [Italic supplied.]

FISCAL YEAR ENDED JUNE 30, 1955

METHODS OF ALLOCATION

Pages 22 and 23

"Policies on allocations to purposes of construction costs of multiple-purpose projects by the Corps of Engineers and the Department of the Interior have differed, in some cases substantially.[1]

"Choices on (1) periods of amortization, (2) rates of interest on investment, (3) inclusion of interest as a cost, and (4) costs to be repaid by power have resulted in wide differences between the Corps of Engineers and the power marketing agencies of Department of the Interior in computing repayment requirements.[2] Through the choice and application of methods of allocation and policies, a wide range of power rates could be justified.

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[1] For a case study, see comments on Missouri River Basin project in audit report dated July 6, 1955, to the Congress on Bureau of Reclamation for the fiscal years 1952 and 1953 (pp. 133 through 135).

[2] See audit reported dated Jan. 13, 1954, to the Congress on Southwestern Power Administration for the fiscal year 1953 (pp. 13 through 16). See also report of the Missouri Basin Survey Commission, "Missouri Land and Water" (p. 92).

Matter for consideration by the Congress

"At the present time the Federal water resource program is based on a larger number of laws that are administered by several agencies, These laws do not provide uniform policies or criteria that are fundamental in carrying out the programs.

"We believe that the water resources program could be more effectively administered if the Congress provided policies and criteria to be applied for allocation of costs of multiple-purpose projects, the results of which serve as the basis for establishing rates for commercial power. In addition to establishing policies and criteria for cost allocations, we believe that the new legislation should also provide for (1) period for repayment of construction costs, (2) rates of interest, and (3) subsidies to nonpower purposes."

Pages 29, 30, and 31

Matter for consideration by the Congress

"Until definite allocations of the construction costs are made, it will not be possible to evaluate adequately the financial administration and results from operations of the Arkansas, White, and Red River Basin projects. The construction costs allocated to power and the repayment requirements must be finally determined before power rates can be properly established in accordance with section 5 of the Flood Control Act of 1944.

"In our report dated December 31, 1954, to the Congress on the Southwestern Power Administration for the fiscal year 1954, we stated a belief that the basis for the differences which existed in the past was fundamental in character and should be resolved with finality by clarifying legislation. Accordingly, we repeated the recommendation in our previous report [2] that the Congress designate specifically the agency to make the allocation of construction costs for projects either constructed or authorized for construction by the Corps of Engineers in the Arkansas, White, and Red River Basins.

"By memorandum dated April 2, 1954, from the Assistant Secretary of the Interior to heads of bureaus and officers in the Department, it was stated that general agreement on allocation of costs of multiple-purpose projects had been reached with the Corps of Engineers and the Federal Power Commission. The Chief of Engineers stated substantially the same in a memorandum dated March 29, 1954, to division and district engineers.

"Apparently some disagreement still exists, because at June 30, 1955, and to the date of this report, there has been no tangible implementation of this agreement for purposes of the financial records. It is our belief that the conflicting contentions that have existed and the existing confusion on the responsibility for cost allocations can be resolved with finality only through legislative action. Accordingly, we recommend that the Congress designate specifically the agency to make the allocation of construction costs for multiple-purpose projects authorized for construction in the Arkansas, White, and Red River Basins by the Corps of Engineers under the various flood control and river and harbor acts."

COST ALLOCATIONS

Excerpts from recommendations by General Accounting Office

Excerpts are taken from audit reports to the Congress of the United States regarding the activities of the Southwestern Power Administration, an agency of the Department of the Interior for fiscal years 1952, 1953, and 1954.

FISCAL YEAR ENDED JUNE 30, 1952

Page 5

"We recommend that the Congress designate specifically the agency to make the allocation of costs for projects either constructed or authorized for construction by the Corps of Engineers in the Arkansas, Red, and White River Basins. The conflicting contentions of the Corps of Engineers and the Department of the Interior, and the existing confusion of the responsibility for cost allocations can

[2] Audit report dated Jan. 13, 1954, to the Congress on Southwestern Power Administration for the fiscal year 1953 (p. 13).

only be resolved through legislative action. In the absence of a specific assignment of responsibility by law, both the Corps of Engineers and the Department of the Interior have made cost allocations and they have been unable to resolve their differences, which are fundamental in character. Until definite allocations of the construction costs are made, it will not be possible to evaluate adequately the financial administration of the projects in the Arkansas, Red, and White River Basins.

"Both the Corps of Engineers and the Department of the Interior base the claim for responsibility for the allocation of costs of multiple-purpose projects on the provisions in the basic legislation. The Corps of Engineers is responsible under the various acts for investigating, justifying, constructing, operating, and maintaining the projects. These projects must be operated and maintained for all the purposes served, and the corps makes available the surplus power for disposal by the marketing agency. For these reasons the Corps of Engineers contends that it is their responsibility to make the cost allocations to all the purposes served, including power. The Department of the Interior contends that the establishment of power rates which will meet the requirements of section 5 of the Flood Control Act of 1944 necessarily implies the responsibility for allocation of construction costs to power and cannot be subject to allocations of costs by someone else."

Page 6

"* * * Through the choice of a method of allocation and the number of years to amortize the amount allocated to power, a wide range of power rates can be justified."

FISCAL YEAR ENDED JUNE 30, 1953

Page 13

"We recommend that the Congress designate specifically the agency to make the allocation of costs for projects either constructed or authorized for construction by the Corps of Engineers in the Arkansas, White, and Red River Basins. The conflicting contentions of the Corps of Engineers and the Department of the Interior, and the existing confusion on the responsibility for cost allocations, can only be resolved through legislative action. * * *"

Pages 14 and 15

"Section 5 of the Flood Control Act of 1944 provides that the power rate schedules of the Department of the Interior shall take into consideration, in addition to the production and transmission costs, the amortization of the capital investment allocated to power over a reasonable period of years. The Corps of Engineers has made tentative cost allocations on nine projects in the Southwest that are either in operation or under construction. The Department of the Interior has made tentative cost allocations on eight of these projects. These computations for eight projects show that the annual power charge as determined by the Corps of Engineers is about 36 percent higher than the amounts determined by the Department of the Interior. The difference arise principally because:

"1. The Corps of Engineers and the Department of the Interior have used different methods to allocate the construction costs for most of the projects. The corps method results in a higher allocation of costs to power.

"2. The Corps of Engineers and the Department of the Interior use different rates in computing interest.

"Through the choice of a method of allocation and the interest rates used a wide range of power rates can be justified."

FISCAL YEAR ENDING JUNE 30, 1954

Page 2

"In previous years a jurisdictional dispute has existed between the Department of the Interior and the Corps of Engineers, Department of the Army, concerning the allocation of construction costs of multiple-purpose projects. We have been informed that general agreement on allocation of costs of multiple-purpose projects has been reached with the Corps of Engineers. The procedures agreed upon, however, leave unresolved the basic problem of final responsibility for making allocations. We believe that the basis for the differences that

existed in the past which were fundamental in character should be resolved with finality by clarifying legislation."

Page 10

"Although the *progress in reaching agreement on allocations* of cost acceptable to both the Department of the Interior and the Corps of Engineers *is commendable, it leaves unsettled the basic problem of final responsibility for making such allocations.* Accordingly, *we repeat our recommendation* contained in previous reports *that the Congress designate specifically the answer to make the allocation of construction costs* for projects either constructed or authorized for construction by the Corps of Engineers in the Arkansas, White, and Red River Basins." [Italic supplied.]

STATEMENT OF U. J. GAJAN, GENERAL MANAGER, SOUTHWEST LOUISIANA ELECTRIC MEMBERSHIP CORP., LAFAYETTE, LA.

Mr. Chairman and gentlemen of the committee, my name is U. J. Gajan. I am general manager of the Southwest Louisiana Electric Membership Corp., the largest rural electric distribution cooperative in America. We are presently serving 28,000 rural families and other establishments in eight parishes of southwest Louisiana. I live in Lafayette, La., and our headquarters are in that city. I am president of the Tex-La Electric Cooperative, Inc., a legally incorporated organization, consisting of rural electric cooperatives and municipalities in east Texas and Louisiana.

I am chairman of the committee on dams for the Southwest area, a subcommittee of the advisory committee on power for the Southwest. The advisory committee is a voluntary organization of duly appointed representatives from the States of Arkansas, Kansas, Missouri, Oklahoma, Texas, and Louisiana. Municipalities are also represented along with some 250 rural electric cooperatives in the Southwest area. Our activities are directed to problems of promoting an orderly and planned development of power supply and power requirements on a wholesale level. Our primary objective is to assure the rural electric and municipal systems, in this six-State area, adequate power at reasonable rates. Hence, our appearance before your committee today.

SPA SETS PATTERN FOR LOW WHOLESALE RATES

First, let me say, that we are in full support of H.R. 8, known as the Trimble bill, and its overall objectives. The problem of reasonable wholesale rates are not new in this area. It dates back to the inception of the rural electric systems in 1937–38. After 27 years of continuous effort, we find ourselves still engaged in a struggle for adequate, dependable wholesale power at reasonable rates.

Until the inauguration of the Southwestern Power Administration, very little was done by the commercial utilities to supply wholesale power at reasonable rates. With the postage stamp rate, known as SPA's schedule "A" rate of 5.6 mills per kilowatt-hour at a 50-percent load factor, then, and only then did the commercial utilities grant the necessary relief. The schedule "A" rate served as the yardstick in wholesale power rate structure.

I am convinced, Mr. Chairman, that just as Southwestern Power Administration set the yardstick for reasonable wholesale rates, it can just as easily set the yardstick pattern in reverse because the Department of Interior arbitrarily increased the SPA rates by 27½ percent, or roughly 7.1 mills at 50-percent load factor, could well prove to be the future pattern for rate schedules in Louisiana. (I would like to add, Mr. Chairman, that at the present time, no power from Southwestern Power Administration is being transmitted into Louisiana. The fact that SPA power was available to cooperatives in Louisiana motivated the commercial utility companies to make the schedule "A" rates available to us.)

REA OPERATING STATISTICS FOR 1957

According to the 1957 operating statistics published by the Department of Agriculture, the following information is submitted for your study:

Year 1957—Louisiana

Number of consumers	114,857
Number of kilowatt-hours purchased	297,566,924
Cost of kilowatt-hours purchased	$1,634,560
Revenue	$8,183,292
Percent of power cost to revenue	20
Average cost per kilowatt-hour	$0.0549

ADDITIONAL POWER COST OVER 30-YEAR PERIOD

In 1957, the 13 rural systems in Louisiana purchased 297,566,924 kilowatt-hours. According to our present rate schedule, as established by the Southwestern Power Administration, we paid $1,634,560. Applying the 7.1-mill rate, which is the present SPA schedule, would have cost the Louisiana systems and the approximately 114,900 rural families an additional $478,165. Projecting this over a period of 30 years, including load growth, and using the 1957 kilowatt-hour consumption would cost the rural people in Louisiana an additional $81 million.

ECONOMIC RECESSION OF RURAL AREAS

In the past few years, the agricultural economy of the Southwest area has been jeopardized by weather conditions, which severely curtailed farm production. In the past years, we have had tornadoes, hurricanes, and heavy rainfalls, which practically destroyed all crops. As of June 19 of this year, the heavy unseasonal rain has again ruined the cotton crop. The farmers are not in a position to pay more for their essential electric service. The rural people need help. I am convinced the Trimble bill (H.R. 8) would be instrumental in stabilizing rates, not only for the farm people, but for all users of electricity in the area. It would provide some future relief for the farmers of the area.

CONGRESS SHOULD DETERMINE COST FORMULA

In my judgment, one of the basic facts that Congress must face is the trend in Government agencies to usurp the authority and the intent of Congress. On December 5, 1952, the Subcommittee on Public Works reported the following:

"The agencies are operating in considerable confusion in the problem of allocation of costs, and that the Congress has not been adequately specific in outlining a policy to be followed in cost allocation."

The Comptroller General, in his audit reports to the Congress in 1954, regarding the activities of the SPA said:

"In previous years a jurisdictional dispute has existed between the Department of the Interior and the Corps of Engineers, Department of the Army, concerning the allocation of construction costs of multipurpose projects. We have been informed that general agreement on the allocation of cost of multipurpose projects has been reached with the Corps of Engineers. The procedure agreed upon, however, leaves unresolved the basic problem of final responsibility for making allocations. We believe that the basis for the differences that existed, which were fundamental in character, should be resolved with finality by clarifying legislation."

Accordingly, we respectfully ask this committee to help correct this confusion by passing the Trimble bill (H.R. 8). This bill would do two very important things.

1. Raise the amortization period from 50 years to 100 years. It is the consensus of opinion that the minimum life of a power dam is approximately 150 years and upward to 500 years. Secretary Aandahl stated his recent study showed that by keeping present rates in effect that the dams would pay out in 78 years.

2. Go back to the true incremental cost method to figure allocation cost by having Corps of Engineers figure the cost of any dam including all facilities, except power, then have them figure the cost with power facilities added. The difference would be the amount to be charged to the power installation. This is the method Congress directed to be used on Denison Dam. On Denison, the cost allocated by Congress was 32 percent of the total cost. The approximately 78 percent allocated cost to the power, on Tablerock, was the amount arbitrarily set by the Assistant Secretary's method.

Unless (H.R. 8) Trimble bill is approved by this committee and passed by the Congress, the ultimate effects will be additional increases in wholesale rates, for Louisiana, with proportionate increases in retail rates to the farmer-consumers and the area. I am sure this committee is well aware that the farmers are presently in economic difficulties. Saddling an additional burden through increased electric rates could help to bankrupt the remaining farmers.

Prior to this time, the retail rates of the rural electric cooperatives were comparable to the commercial utilities. As such, it was the stabilizing influence in the overall retail rate picture of the electric consumers. In my judgment, if the cooperatives are forced to increase their electric rates, the commercial utilities will eventually do likewise, costing the Nation's electric users millions of dollars in added costs. It would certainly not be helpful to the economy of our Nation at this time.

PROTECT OUR PRECIOUS WATER

I hope this committee will not lose sight of the fact that if the allocations of cost to power are continuously increased, it will tend to eliminate the future development of multipurpose dams. Therefore, the precious fresh water will be allowed to waste unused into the seas. I am further convinced that it is impossible to overemphasize the importance of water and water resources development and its relationship to our future economic growth.

The report of the Presidential Advisory Committee on water resource policy, dated December 23, 1955, pointed out that the estimated use of water in this country in 1950 was 185 billion gallons per day. Based on a population estimate of 200 million by 1967, the estimated daily requirements would be 350 billion gallons. If you consider the revised estimated population of this country in 1967, the estimated water requirements would be between 400 and 450 billion gallons per day. This is considerably more than double the 1950 requirements in just 17 years.

Mr. Chairman and gentlemen of the committee, this Nation is experiencing a crisis. In my humble opinion, the future economic growth and development of our natural resources through multipurpose projects, greatly hinges on the passage of House bill H.R. 8. I respectfully urge that this committee give serious consideration and approval to the Trimble bill, in order to preserve our natural water resources—to stabilize rates—and to assure a healthy and economic growth for our great Nation.

Thank you.

STATEMENT BY LOUIS STRONG, MANAGER OF KAY ELECTRIC COOPERATIVE, BLACKWELL, OKLA.

Mr. Chairman and gentlemen of the committee, this statement is made on behalf of the board of directors of Kay Electric Cooperative, serving rural residents in all or parts of five counties in north central Oklahoma.

We are now purchasing or soon will be all of our power from the Southwestern Power Administration. The increased cost to Kay Electric Co-op brought about by higher rates charged for power from multipurpose dams in the Southwest would have been $29,000 in 1958; and we estimate it would have cost $34,000 in 1959, if we had been purchasing all of our power from SPA. Assuming normal growth, the increased cost over a 10-year period will amount to $550,000.

This increase comes at a time when agriculture, rural people and electric cooperatives are facing a most uncertain and troubled future.

We respectfully urge the committee and the Congress to approve H.R. 8.

STATEMENT OF E. E. KARNS, GENERAL MANAGER, WESTERN FARMERS G. & T. COOPERATIVE, ANADARKO, OKLA.

Mr. Chairman and members of the committee, my name is Elbert E. Karns, general manager of Western Farmers Electric Cooperative, Anadarko, Okla. Western Farmers is a G. & T. Cooperative (generation and transmission), which supplies the wholesale power needs of its 11 member cooperatives, who serve some 50,000 rural consumers in the western half of Oklahoma. In addition, Western serves the power needs of the Altus Air Force Base, located at Altus, Okla., and interchanges power with the city of Fairview. Our transmission system is interconnected with that of Oklahoma Gas & Electric Co. We operate 2 powerplants, 1 of which is steam, located at Anadarko, Okla., with a capacity of 74,000 kilowatts, and a diesel plant located at Woodward, Okla., with a capacity of 4,400 kilowatts. Our transmission system consists of approximately 1,250 miles of 60,000-volt lines, having approximately 150,000 kilovolt-amperes of substation capacity. Western's total investment to this date is a little over $29 million.

The facilities of my cooperative and those of the Southwestern Power Administration are fully interconnected. We have entered into a long-term contract with the Government whereby we sell substantially part of the power we generate and purchase back from the Government a substantial part of the power we need for our system. This contractual arrangement with SPA is very beneficial to both the Government and to us. In fact, neither of us could operate as economically as we do if our systems were not interconnected.

We in western Oklahoma developed this G. & T. Cooperative and assumed the obligation to repay all of the money borrowed from REA upon the belief that a combination of Federal hydropower and the cooperative steam power would produce very low cost electric energy for abundant use by our people. We were assured by everyone from Washington to Anardarko that such a combination would produce low cost power.

We have a great stake in the Federal hydroelectric program in the Southwest. Our very life and existence is dependent upon the hydro program in our area. We were told when we started our cooperative that a rate averaging 5.6 mills per kilowatt-hour would be sufficient to meet all of SPA's obligations. As a matter of record, we were told that there were sufficient cushion in the rate to take care of any changes in cost and that, if anything, experience would show that the rate could be reduced. For certain, we had no reason to believe that any upward rate adjustment would be forthcoming.

To the best of our ability, we have tried to determine the reason for the recent rate increase from SPA. It seems to boil down to a change in the formula of making cost allocations for the projects in our area. This change of formula has merely increased the cost allocated to power, thereby providing the basis for higher rates. Not only have the people in Washington changed the formula for allocating costs, they have also changed the method of determining the benefits of power. They have reduced the benefits of power and at the same time increased its share of the cost. This has the ultimate effect of destroying the feasibility of our undeveloped multiple-purpose projects. The reduction in the benefits to be derived from power was determined by valuing it on the basis of federally constructed steam plants on an alternative source of power in the area. In other words, before hydro facilities could be justified it must be the cheapest power that could be produced by any method of generation and by and producer, even the Federal Government. This sort of test is very severe and, in our opinion, will make any project that might heretofore been determined feasible unfeasible.

The Federal Government is not now engaged in building steam plants in the Southwest, and there is no indication that it is about to launch a program of federally owned and financed steam plants. It then appears to us, that the responsible parties are resorting to a nonexistent, fictitious test of feasibility.

We feel that the principle contained in House Resolution No. 8 wherein that in no event shall an alternative source of electric power be considered as available, or as expected to develop, unless there is a reasonable likelihood that alternative source of power will actually be available or develop; nor shall

a Federal source of electric power be considered as available, or expected to develop unless such Federal source of electric power is authorized by law. With this principle, realism can be restored to evaluating power in multiple-purpose projects.

The House Resolution No. 8, would provide a more realistic approach to the payout period for these multiple-purpose projects. It provides that the Government's investment in the project shall be amortized "over the useful life of the project or a period of 100 years, whichever is the shorter." This, of course, is in addition to the other annual operating costs. At the present, the facilities are being amortized over the useful life of the project, but not to exceed 50 years, except under certain conditions where irrigation is involved.

All of us know that these large engineering projects will last for hundreds of years barring earthquakes and bombing. Certainly some of the machinery and equipment will have a relatively shorter useful life. The question remains, why should the entire cost be paid off in 50 years so that large profits will be made in the years thereafter. Why should the beneficiaries of the product and services bear all the cost during the first 50 years? Would it not be more equitable to spread the cost more consistently with the useful life of the project? We do not believe, however, that there would be much advantage to extending the amortization period beyond 100 years because of the added interest component.

Mr. Chairman, we believe that this a more realistic approach to this problem than is now used.

There is a fundamental principle that appears to be deviated from in current practices of determining feasibility of a project. We do not understand why we comprehensively plan for a river basin development and then test bit by bit the feasibility of it. In rural electrification area coverage is practiced. This means that everybody gets service so long as it can be justified on an overall basis. Thousands of farmers today would be denied electric service if every individual farm standing alone had to pass the economic test.

This same principle should apply to a comprehensive river basin plan. The important thing is that the entire project stand the feasibility test and not that every segment must stand up with a favorable benefit-cost ratio. Must important parts of comprehensive plans be abandoned merely because they will not show a net benefit when their inclusion is important to the plan, although including them does not reduce the project below the feasibility level?

Someone has said that this violates the principles of economics. There is hardly a business in the country that does not operate some segment of its business at a loss. These losing segments cannot be abandoned because they are important to the remainder of the business and the losses can be absorbed by the other segments of the business. For example, a business may be operating a delivery service at a small loss. It can't abandon delivery service because the customers demand it. Rather than violating any principles of economics it is a problem which economics has recognized and accepted as a part of the business life of the community.

Mr. Chairman, great strides have been made in broadening comprehensive plans for developing our natural resources. I believe it is time for us to catch up with a broad comprehensive view of feasibility.

Most of the several Federal agencies concerned advocate the use of what is called the separable cost-remaining benefits theory. They say it shares equitably the joint cost among the several purposes of the project. The result of this equitable sharing of joint cost has found that hydropower is infeasible in Lone Rock and Gilbert projects in Arkansas. The same projects had a favorable benefit-cost ratio of 1.1 to 1 prior to this new formula and a ratio of 0.83 to 1 under the current criteria.

The minority committee reports on S. 497 (H.R. 1122, p. 75) states that cost of power in the Lone Rock-Gilbert area ranges from 7.5 mills per kilowatt hour at Greers Ferry to 10.2 mills per kilowatt hour at Beaver and that the cost at Lone Rock would be higher. This seems to be clear proof the new formula of cost allocations known as separable costs-remaining benefits so equitably allocates joint cost to power that it prices it right out of the market. Practically all of the other multipurpose projects in the Southwest fall into this same category. I doubt that electric cooperatives can afford to buy the power from any remaining projects where the costs are allocated on the separable cost-remaining benefit principles.

The same thing would happen in private industry where joint products or services are produced. For example, if coal had to bear its equitable share of the joint costs of a railroad, very little, if any, coal would move by rail. If all

byproducts of meatpacking had to bear their equitable share of joint costs, some of these products would not be marketed at all. It is a well known principle in pricing joint products that each will bear as much of the joint costs as it can.

Mr. Chairman, it is our sincere belief that the provisions and principles of House bill No. 8, will improve and enhance the Government's hydroelectric power program. It provides a much more realistic approach to many problems that we are now confronted with. It is our hope that you will give your most earnest consideration to this matter.

STATEMENT OF L. E. MADDOX, TRUSTEE AND VICE PRESIDENT OF THE ALFALFA ELECTRIC COOPERATIVE, INC., CHEROKEE, OKLA.

My name is L. E. Maddox. I am a trustee and vice president of the Alfalfa Electric Cooperative, Inc., Cherokee, Okla., which headquarters are approximately 50 miles northwest of Enid, Okla. I represent approximately 3,700 member-consumers located in five counties in Oklahoma and in two counties in Kansas.

Our purpose here is to urge favorable action on Senate bill 1591, sponsored by Senators Robert S. Kerr and Mike Monroney from Oklahoma; Senator Frank Carlson from Kansas, et al. A companion bill to H.R. 8 sponsored by Congressman James Trimble, of Arkansas.

We believe that the adoption of Senate bill 1591 will establish uniform progressive laws to guide the administrative agencies in studying project feasibility and cost allocations to be recommended to Congress; and that the allocations will be more equitable than present methods used.

We believe that this bill does not contend for cost allocations which result in the lowest allocation to power, but rather a fair share method. Hydroelectric power should pay its proportionate percentage of costs, as should every other feature for which the multipurpose project is constructed, with the principal purpose of the project considered basic.

We think it is unfair, unrealistic and not the intent of Congress that electric power should be allocated the primary portion of costs merely because it is the more lucrative feature.

This bill establishes a project payout period as the useful project life or 100 years, whichever is shorter, which we believe to be a more equitable solution to the lowest justifiable cost for Federal hydroelectric power.

This bill, we believe, will materially assist in stabilizing power rates, and in so doing will greatly aid in developing more abundant and more efficient electric power use—better living standards

We respectfully urge favorable action on this bill.

STATEMENT OF PEOPLE'S ELECTRIC COOPERATIVE, INC., ADA, OKLA.

Mr. Chairman and members of the committee, our cooperative has purchased its total power requirements from the Government, through the Southwestern Power Administration, since August 1951.

Until August 1957 we were paying 5.3 mills per killowatt-hour and since that date our power costs have been 6.9 mills per kilowatt-hour. This means an increase cost to our members of approximately $45,000 per year.

We believe that part of the increase in power rates was due to the lack of set policies on establishing cost allocation for the multipurpose projects, and to the present repayment period of 50 years on the capital investment.

It is our belief that Congress should establish policies for making cost allocations, and that each purpose deriving benefits from the projects should assume a fair share of the cost.

In the matter of payback time, section 5 of the Flood Control Act of 1944 specifies that the rates shall include the amortization of capital investment allocated to power over a reasonable period of years. Certainly the reasonable life years of structures such as multipurpose dams would be several times the 50 years as specified.

We believe that the approval of H.R. 8 would clarify the manner of establishing cost allocations and would also set up a more realistic term of payback time.

We would certainly appreciate your favorable consideration of this bill.

STATEMENT OF T. H. KETELS, TRUSTEE, COTTON ELECTRIC COOPERATIVE, WALTERS, OKLA.

Mr. Chairman and gentlemen of the committee, my name is T. H. Ketels. I have been a trustee of the Cotton Electric Cooperative, Walters, Okla., since 1938. I am here as a representative of the 8,200 members and consumers of our cooperative located in Cotton, Stephens, Comanche, Tillman, Jefferson, Caddo, Grady, and Carter Counties, Okla., to respectfully request your favorable consideration of H.R. 8, commonly referred to as the Trimble bill.

The farmers in our section of the country have been confronted with many serious problems during the past few years with respect to the price they are obliged to pay for goods and services as compared to the price they receive for the commodities they produce. Electricity has become one of the prime movers in farm production and as recently as August 1957 the wholesale price of electric power to the rural electric cooperatives in our area was increased an average of 27 percent by the Southwestern Power Administration. This rate increase will result in additional wholesale power costs of over $40,000 to the members of our cooperative during the calendar year 1959.

Under present cost allocation policies covering hydroelectric facilities in Government multipurpose dams, it appears inevitable that wholesale power rates must surely be increased again and again to cover the major portion of the investment in these projects for irrigation, soil conservation, flood control, recreation and other related benefits. This can only result in working a further hardship on power consumers by tending to price hydroelectric power beyond the reach of small preference customers.

These are the reasons we are here to plead the adoption of House Resolution No. 8. We do not believe it is the intent of Congress that power production facilities should carry the major burden of costs of multipurpose projects and we are firmly convinced that a fair and equitable allocation of costs to hydroelectric projects cannot be expected until the authority to make these cost allocations is returned to the Congress of the United States. It is also our firm and considered opinion that amortization of the investment in multipurpose projects should be spread over the life of the facilities.

In closing I wish to thank you gentlemen for your patience and favorable consideration of our problem.

STATEMENT OF VERDIGRIS VALLEY ELECTRIC COOPERATIVE, INC., COLLINSVILLE, OKLA.

Mr. Chairman and gentlemen of the committee, Mr. D. A. Whipkey, manager, and Mr. Joseph T. Lombard, trustee, the two representatives of the Verdigris Valley Electric Cooperative, Inc., of Collinsville, Okla. present at this hearing, make this statement for and on behalf of the cooperative.

The Verdigris Valley Electric Cooperative, Inc., serves an area of substantial parts of five counties located in the northeastern part of the State of Oklahoma. The purpose of this cooperative in having representatives present at this hearing is to express to the committee of Congress our sincere belief that House Resolution No. 8, known as the Trimble bill, is for the best interest of the individual members of this cooperative and the citizens in general.

The Trimble bill is a nonpartisan issue; many leaders in both political parties have been and are now actively supporting the passage of this bill.

It is our sincere belief that the allocations of the cost of a multiple-purpose project is a proper function of the Congress, and that in permitting Congress to make the cost allocations, each purpose will share more equitably in the savings resulting from combining the purposes in a multiple-purpose development.

Favorable action on the Trimble bill, we believe, will accomplish the following:

1. The said bill will carry out the wishes of the Comptroller General of the United States as he expressed them in 1954.

2. The Trimble bill will enable Congress to establish proper allocations of cost of multiple-purpose projects.

3. It establishes a project payout period as the useful life or 100 years, whichever is the shorter, rather than limit the prepayment period to the lesser of the useful project life or 50 years.

4. The Trimble bill will materially and substantially assist in stabilizing power rates.

5. The Trimble bill provides, and we believe justifiably so, that commercial, industrial, municipal water, water conservation as well as navigation, recreation, and downstream benefits should in each case carry their pro rata portion of the cost of a multiple-project dam.

We urge that this committee give its wholehearted support to the passage of the Trimble bill, and we urge each Member of the Congress and of the Senate to give his wholehearted support to the end that the said bill may become the law of the land.

VERDIGRIS VALLEY ELECTRIC COOPERATIVE, INC., COLLINSVILLE, OKLA.

Summary of facts

1. Members served	7,083
Farms	4,307
Nonfarms	1,234
Schools, churches, public halls	89
Small commercial loads	1,442
Commercial and industrial (over 25 kilovolt-amperes)	11
2. Idle farm services	1,197
3. Miles of REA line	2,501
4. Total electric (capital) plant	$5,440,791.43
5. Average electric revenue per month (1958)	$67,609.46
6. Taxes paid, 1958	$18,716.50
7. Power purchased, 1958 (kilowatt-hours)	29,222,751
8. Total cost of power purchased, 1958	$177,473.17
9. Average annual payroll (46 employees)	$211,555.24
10. Overall present margin of cooperative	$180,470.51

STATEMENT OF H. G. TEMPLETON

I am H.G. Templeton, representing the Harmon Electric Association, Inc., Hollis, Okla., an REA cooperative which I have managed for the past 19 years. I am also representing Western Farmers Electric Cooperative, Anadarko, Okla., a generating and transmission cooperative, providing Harmon Electric Association and 10 other distribution cooperatives in central and western Oklahoma with electric power.

Western Farmers Electric Cooperative was incorporated and built by the 11 distribution cooperatives to provide a dependable and adequate source of electric power at a cost which would create its most widespread use. At first Western Farmers fulfilled its objective by causing wholesale power suppliers to make considerable rate reductions to the cooperatives and later by obtaining low rate contracts with Southwestern Power Administration. When power cost allocations in multipurpose dams in the area was raised from $130 million to $200 million it caused a 27 percent rate increase to Western Farmers, which in turn with the 100 percent rachet being applied at the same time, cost the Harmon Electric Association an extra $35,000 annually, forcing an increase in retail rates to its members thereby causing a tendency to curb the use of electric power rather than creating the most widespread use of it.

We believe that each benefit available in multipurpose dams should pay cost in proportion to benefits received. In the SPA area due to lack of water, hydrogenerators operate during flood stage of streams and on kilowatt peaks, therefore power is receiving only minor benefits, where in other areas water is available to maintain year round operation of generators, power is the major benefit. To charge power with the major cost in both areas without consideration of the difference in power produced, you have a low power rate on one hand and a high power rate on the other. We believe in the Southwest area, if power is demanded to pay these high cost allocations, it will completely destroy the yardstick which public power has long maintained, and eventually force the weaker cooperatives to price themselves out of the market. We urge adoption of this resolution because we believe:

1. It will maintain cost allocations and rates on a just level.
2. It sets statutory provisions for determining allocations.
3. It provides that all benefits pay a reasonable share of the cost, but does not change present arrangements, whereby, other benefits may be partially subsidized by power if an area so desires to do so.
4. It provides a more realistic payout period.
5. It is right and fair to all.

STATEMENT OF OKLAHOMA ELECTRIC COOPERATIVE, NORMAN, OKLA.

Mr. Chairman and members of the committee, we, the board of trustees of Oklahoma Electric Cooperative, sincerely enlist your favorable support of House bill H.R. 8 or similar legislation which would put the matter of cost allocation of multiple dams including power back into the hands of Congress.

We feel that it will help Federal multiple-purpose water resource development by establishing uniform progressive laws to guide the administrative agencies in studying project feasibility and cost allocation, and by reducing the wide policy variations between separate Government agencies in this field.

We feel that the percentage of cost which is to be allocated to power and the other benefits should be definitely determined, and a more realistic approach to the service life of payout period for these projects should be determined before the construction of the project.

In the case of the Denison Dam, constructed on the Red River between the States of Oklahoma and Texas, the portion allocated to power was set at 30 percent of the cost and approximately 41 percent on the Norfork Dam. However, the cost allocation charge to power on some others have been much higher, up to 90 percent of total project cost, which has caused an overall increase in the wholesale rates of hydropower.

The water impounded by dams in this area is primarily controlled by the rainfall in the watershed of each particular project. This amount varies considerably one year with another. Therefore, only a portion of the total power which could be generated at these dams can be classed as firm power, but is extremely valuable as standby capacity and peaking power. Electricity cannot be stored up but water to a certain extent can be and then turned into power on short notice when it is needed.

Our cooperative has borrowed from the Government $3,484,000. These loans were made to build lines to all persons within the boundary of our cooperative. The feasibility study was based on a fixed interest rate of 2 percent and the going wholesale rate for power at that time. Due to a change in formula of allocating cost of power it has caused an increase of wholesale power. From the estimated amounts of power we will use in the next 10 years, this will cost this cooperative a little over half a million dollars in that period of time over and above what was used in our feasibility study. Therefore, we feel that there should be a definite means which would more nearly determine a realistic pay out of all hydro facilities and thereby give the cooperative and other purchasers of power a more nearly guaranteed rate at which this power should cost us over the period of our loans.

This cooperative is now serving 4,872 rural farms and rural establishments. Yet in the past few years, due to the consolidating of farms for larger operations, many of our people are leaving the farms and after retiring some 900 idle services we still have 693 idle services on our system. Some of our lines located in the more thinly populated areas would not be feasible at the present cost of power.

J. I. Peachee, president, Norman, Okla.; T. R. LaMar, secretary-treasurer, Norman, Okla.; Owen Skaggs, trustee, Tuttle, Okla.; Doyle Pope, trustee, Norman, Okla.; E. S. Shoemake, trustee, Chickasha, Okla.; Walter Northcutt, trustee, Lexington, Okla.; M. O. Gray, trustee, Chickasha, Okla.; J. H. Redman, trustee, Newcastle, Okla.; J. P. Morgan, trustee, Purcell, Okla.

STATEMENT OF D. G. MCLELLAN, MANAGER, RURAL ELECTRIC COOPERATIVE, INC., LINDSAY, OKLA.

As manager of the Rural Electric Cooperative, Inc., of Lindsay, Okla., an electric distribution cooperative extending electricity to approximately 3,800 rural consumers, I, D. G. McLellan, am submitting this statement to this committee with full authorization from our board of trustees.

We urge your support of H.R. 8, known as the Trimble bill. We feel that this bill would establish policies and provide procedures and criteria governing the determination and allocation of costs and benefits of water resources projects under Federal jurisdiction and the determination of rates to be charged for electric power in connection therewith. This would solve the problem of differences between administrative agencies charged with separate phases of Federal water resources. How better can these problems be met than by the establishment of statutory standards to guide all administrative agencies.

Under the existing regulations, we electric cooperatives never know at what time our wholesale electric rates might be increased by the agencies like the 27 percent increase we had in 1956.

We sincerely urge your support for H.R. 8.

STATEMENT OF JULIUS HELM, GENERAL MANAGER, MISSOURI STATE RURAL ELECTRIFICATION ASSOCIATION, JEFFERSON CITY, MO.

Mr. Chairman and gentlemen of the committee, my name is Julius Helm. I am general manager of the Missouri State Rural Electrification Association, which is a service organization representing 46 REA-financed cooperatives, serving approximately 245,000 rural consumers.

In the beginning, Mr. Chairman, I should like to emphasize that from the very day in 1957 when the Department of the Interior arbitrarily increased the wholesale rates to rural electric cooperatives in the SPA area by approximately 27 percent, we have been discussing with the farmer-directors and members of the rural electric systems throughout Missouri the great need of a national water policy that would provide procedures and criteria governing the determination and allocation of costs and benefits of water resources projects under Federal jurisdiction. We have pointed out that there does not exist a national water policy or definite criteria for determining benefits and cost allocations in the multiple-purpose projects. As an obligation to the rural people of our State, we have been saying, and rightly so we believe, that there is every indication that unless the Trimble bill or similar legislation is passed by the Congress the allocation to power will become so great and disproportionate with the other benefits that Federal power will eventually be priced out of the market, forcing the rural electric cooperatives to either generate all their own power requirements or purchase from the private companies, with the net result being a substantial increase in rates regardless of the method pursued.

Attached to this statement, Mr. Chairman, is resolution adopted during the 22d annual membership meeting of our association in Kansas City, Mo.: January 9, 1959, supporting the Trimble bill. With your permission, Mr. Chairman, I should like to have the resolution made a part of the record.

Also, Mr. Chairman, I should like to quote a paragraph from resolution adopted by the Missouri Farm Bureau Federation during its last annual statewide membership meeting in Jefferson City, Mo., November 19, 1958, which in effect endorses the Trimble bill, and I quote:

"We further urge the American Farm Bureau Federation to support legislation to provide for the establishment of a formula for the allocation of cost on Federal multiple-purpose projects. This is a constructive step since the portion of such costs to be amortized by power bears directly upon the expense of such power when supplied to the consumer."

On behalf of the rural people of Missouri, and what we sincerely believe is in the best interest of all people in Missouri and the Nation, we respectfully urge this committee, Mr. Chairman, to recommend passage of H.R. 8. By so doing, we believe an important step will have been taken in maintaining one of the greatest and most successful social and economic programs ever initiated by the Federal Government—the REA.

RESOLUTION ON TRIMBLE BILL (H.R. 8)

Adopted during 22d annual membership meeting of the Missouri State Rural Electrification Association, Kansas City, Mo., January 8–9, 1959

Whereas in 1957 the Department of the Interior, with the approval of the Federal Power Commission, arbitrarily changed the allocation formula in multiple-purpose projects resulting in an increase of approximately 27 percent in power costs to the rural electric cooperatives in Missouri and the Southwest; and

Whereas Congressman Trimble, of Arkansas, has introduced a bill in Congress designed to remove cost allocation in multiple-purpose projects from governmental departments and administrative agencies and place final determination with the Congress on an equitable basis: Now, therefore, be it

Resolved, That the Missouri State Rural Electrification Association, representing 46 rural electric systems serving approximately 245,000 rural consumers, respectfully requests each member of the Missouri congressional delegation to actively support the Trimble bill and/or similar legislation that would vest in

the Congress full authority to determine project feasibility and cost allocation in multiple-purpose projects.

STATEMENT OF NORTHWESTERN ELECTRIC COOPERATIVE, INC.

The board of trustees of Northwestern Electric Cooperative, Inc., urgently requests the passage of House Resolution 8, known as the Trimble bill, for the following reasons:

We feel that the allocation of costs to be charged to various uses of multipurpose dams, financed by the Federal Government, should be a responsibility of the Congress of the United States. The responsibility of passing on the necessity and feasibility of these projects, and allocating funds for their construction is the duty of Congress, and certainly the distribution of costs to various facilities should also be theirs.

We further feel that the various groups receiving benefits in one way or another from such dams, should not have to look to, or be dependent on, any Federal agency or bureau for cost allocations, and be subject to any changes of such costs as they may impose upon them at any time. It is important that such groups know in advance what the costs affecting it will be, and know that they will not be changed without the Congress of the United States making and approving such changes.

The increase in the costs which such an agency of the Government has made in the past few years has cost our cooperative the additional sum of $29,774.28 in the calendar year of 1958. In projecting our operating costs into the future we find that this policy will cost our cooperative an estimated additional $178,645 for the next 5 years, based on the additional charges already put into effect, and if allowed to continue on this basis will cost us an additional figure, $393,620, in the next 10 years.

We feel that the payout life of hydroelectric dams should be increased to 100 years. We understand that it is contemplated that these dams will last 100 years or longer. We feel that by decreasing the payout period to 50 years, places the burden of paying for these dams on the people who now use the services of the dam, and that it justly should be spread out over more nearly the estimated life of the dams. This, we feel, should be the intent of Congress, and a more equitable basis of costs to the people.

We also feel that the Congress is proud of its creation of the Rural Electrification Administration, and of the record of the many rural electric cooperatives in the United States, and that if the authority of establishing the rates for power and allocating other costs applicable to the benefits received by the people from these great multipurpose dams is returned to the Congress, where it justly belongs, and such groups directly interested in these costs will have no reason to fear any unjust treatment, and will be able to carry on their plans now and in the future with the feeling that they will not be discriminated against.

We also feel that unless this is done and these costs distributed on a fair and impartial basis our cooperative may be forced to increase our rates to our rural people, who are now having to sell their farm products at a far less figure of an equitable parity price than any other raw or finished product that we know of.

We against request that this power of allocations on these dams be returned to the Congress, where we feel that a just distribution of such costs would be made on a fair and impartial basis.

Respectfully submitted.

Jess M. Hedges, Wilfred Johns, E. T. Wheeler, E. E. Nossman, W. R. Kinney, Paul Hepner, Earl Kerns, Earl L. Petree, Frank McCartor, Board of Trustees, Northwestern Electric Cooperative, Inc., Woodward, Okla.

STATEMENT BY W. H. SAXTON, PRESIDENT, TENNESSEE VALLEY PUBLIC POWER ASSOCIATION

My name is W. H. Saxton. I am manager of the Tallahatchie Valley Electric Power Association, Batesville, Miss., a rural electric cooperative serving 12,700 members in the State of Mississippi. I am submitting this statement in my capacity as president of the Tennessee Valley Public Power Association, an

organization of municipally and cooperatively owned electric systems in the Tennessee Valley. The member systems of this association distribute electric power to some 5 million people.

I wish to express our support of H.R. 8. This bill, as I understand it, is intended to give Congress a reasonable amount of control over the terms under which Federal river development projects are judged feasible, and under which costs are allocated to the various purposes of the projects. At present these terms are pretty well set by the Bureau of the Budget, through its Circular A–47.

Section 10 of H.R. 8 states that this bill does not apply to cost allocations of the Tennessee Valley Authority, from which member systems of our association purchase power at wholesale, or to any unit or project for which allocation of costs has been previously determined by act of Congress. Therefore our area is not affected by this bill. We are, however, interested in an equitable program of Federal development of the Nation's rivers, and we feel that this bill is a good one.

The municipalities and cooperatives which buy power from the Southwestern Power Administration have found themselves seriously hurt by changes in the cost allocation methods on projects in their area. This is also true in other parts of the country, where Budget Bureau Circular A–47 has had two effects: to raise the cost of wholesale power supply from Federal projects, and to discourage the construction of projects under study.

We have had some experience in the Tennessee Valley with the Bureau of the Budget, including the late and not lamented Dixon-Yates contract. The Budget Bureau has attempted to take over, by administrative action, policy-making responsibilities placed by Congress on the Tennessee Valley Authority Board of Directors. The Budget Bureau, in our opinion, has worked against the program of electricity at reasonable rates.

One of the major questions before your subcommittee is this: Does Budget Bureau Circular A–47 represent the intent of Congress as a means of developing fully our Nation's water resources, or does H.R. 8 offer a better and more effective way to stimulate maximum use of our water resources? We feel that H.R. 8 is the better approach, and one which Congress should adopt.

H.R. 8 says that a river basin should be considered a single resource, and should be developed on a river-basin basis. This concept has been followed in the Tennessee Valley, with untold benefits to the Nation. It is a concept which was expounded 50 years ago by such conservationists as Theodore Roosevelt and Gifford Pinchot.

This bill proposes a fair method of allocating costs on Federal multiple-purpose projects, and also sets up a fair standard for the amortization period on Federal dams. We have a different arrangement in the Tennessee Valley, but it is clear that the methods advocated in this bill would be equitable in other parts of the Nation. For example, in the Southwest, where flood control and other non-power functions are of overriding importance in Federal multiple-purpose projects, the cost allocations have produced serious hardships, and this situation would be alleviated by passage of this bill.

At present only about 25 percent of the Nation's hydroelectric potential has been developed. This fact makes it imperative that, with electrical uses growing in this country at a remarkable pace, the Congress establish the policies under which multiple-purpose Federal projects are to be judged feasible, and under which costs are equitably allocated among the several purposes served by these dams. With millions of kilowatts of electrical capacity to be developed, with great flood-control benefits to be achieved, with ever-growing problems of water supply, with navigation, recreation, pollution control, silt control, and other benefits to be gained from full development of our Nation's rivers, now is the time for Congress to set up standards for these developments. We feel that the Trimble bill, H.R. 8, includes desirable standards under which America's river development program can go ahead under equitable rules.

STATEMENT OF THE SOUTHWEST RURAL ELECTRIC ASSOCIATION, TIPTON, OKLA.

Mr. Chairman and gentlemen of the committee, the Southwest Rural Electric Association serves 5,400 rural consumers along 2,400 miles of distribution lines in southwest Oklahoma and adjacent counties in Texas.

We are in full support of House Resolution 8, known as the Trimble bill, and its objectives.

Cost allocations now used by Federal agencies have caused hydroelectric power to be charged with very high portions of the cost of Government dams, though power generation in many instances is incidental to flood control, navigation, or irrigation. Under the Trimble bill, the allocation of costs to power generation would be reduced to levels consistent with the actual cost of installing and maintaining power facilities.

Competent engineers agree that the useful life of multiple-purpose reservoirs exceeds 150 years, while present policies require that reimbursable costs of Federal reservoirs be repaid in not more than 50 years. The Trimble bill proposes to raise the maximum payout period to 100 years, or the useful life expectancy, whichever is the lesser.

The bill would require multiple-purpose reservoir planning to proceed on a comprehensive basinwide basis with recognition to all benefits of full development.

We believe that the Congress should set the pattern for cost allocations for all Federal projects.

The practice of readjusting the allocation of costs on Federal projects at various times in such a way that hydropower is caused to bear larger proportions of the cost has resulted in the rural electric cooperatives paying more and more for power purchased from these sources.

We respectfully request your most serious consideration and approval of the Trimble bill.

STATEMENT OF LAKE REGION ELECTRIC COOPERATIVE

Officers and directors of Lake Region Electric Cooperative, Inc., Wagoner, Okla., after careful study and consideration of the Trimble bill, H.R. 8, goes on record as endorsing it in its entirety. W especially feel that consideration should be given to all aspects of the feasibility of such projects, cost allocations being made in accordance with each purpose. It is the opinion of this cooperative also, that section 8 of this bill is of vital importance in that it would serve to stabilize power costs over the period of years served by such projects.

John Stewart, President, Pitchford Thompson, Vice President, A. L. Wilson, Member, G. V. Langston, Member, Sid Bean, Superintendent, Grace Hudlin, Manager, Floyd Welch, Secretary-Treasurer, Dewey Young, Member, Oscar Norwood, Member, Earl Youree, Attorney, W. B. Boozman, Office Manager.

Mr. MACK. Governor, yesterday during the testimony of your engineer, I was compelled to return to my office and did not hear all of your engineer's testimony. At some place in the record has your organization inserted the number of co-op organizations in the country and the number of customers?

Mr. MCMATH. We have that information and would make it available to the committee if you desire.

Mr. MACK. Would you do that?

Mr. MCMATH. We will.

Mr. DAVIS. We would like to hear from you now, Mr. Shaw.

STATEMENT OF V. B. SHAW, MANAGER OF WOOD COUNTY ELECTRIC COOPERATIVE, QUITMAN, TEX.

Mr. SHAW. Mr. Chairman and gentlemen of the committee, my name is V. B. Shaw of Quitman, Tex. I am manager of the Wood County Electric Cooperative, serving 7,100 members in nine east Texas counties. I am also a member of the Southwestern Power advisory committee and I am the immediate past chairman of this committee. I am also a member of the Tex-La Electric Cooperative.

I am appearing before this committee on behalf of the Trimble bill and would like to show this committee that the prices charged for

electricity by the Southwestern Power Administration not only influence the cost of power through the Southwestern Power Administration to its purchasers, but it influences the prices charged by other utilities.

It has influenced the price of power in the SPA area since its inception, as evidenced by our power costs which are as follows:

On October 25, 1938, we received our first wholesale electricity bill. This electricity was purchased from the Southwestern Gas & Electric Co. with headquarters in Shreveport, La. Our cost was 1.56 cents per kilowatt-hour.

On October 31, 1939, our cost per kilowatt-hour was 1.38 cents; October 31, 1940—1.21 cents per kilowatt-hour; October 20, 1941—0.858 cent per kilowatt-hour; October 20, 1942—0.85 cent per kilowatt-hour; October 20, 1943—0.823 cent per kilowatt-hour; October 20, 1944—0.818 cent per kilowatt-hour; October 20, 1945—0.815 cent per kilowatt-hour.

October 20, 1946—5.6 mills per kilowatt-hour (this is about the time SPA began planning to sell power in the Southwest).

October 24, 1952—5.3 mills per kilowatt-hour.

October 25, 1955—SPA billing, 5.5 mills per kilowatt-hour; Southwestern Gas & Electric, 5.6 mills.

October 29, 1956—SPA billing, 5.5 mills.

October 29, 1957—SPA billing, 1,179,900 kilowatt-hours at a cost of $8,614.70, making it cost 7.2 mills per kilowatt-hour. That is at the time of the increase in cost—increasing our dollar cost by $2,361.23.

At the same time we purchased 502,540 kilowatt-hours from Southwestern Gas & Electric Co. at $3,255.81, a price of 6.48 mills per kilowatt-hour, an increase of $431.59 over the old price, making the grand total for this month of $2,792.82 increase in our billing.

October 28, 1958, SPA billing—1,225,200 kilowatt-hours costing $8,750.60—cost per kilowatt-hour 7.1 mills. If billed at the old price, it would have been $6,493.56 or a difference of $2,257.04. At the same time, Southwestern Gas & Electric Co.'s billing was 546,120 kilowatt-hours for $3,571.62, at a cost of 6.54 mills—an increase of $474.35 over the old price—a total increase for this month of $2,731.39.

Under the present practice we never will know how to plan our rate structure, because the SPA rate is subject to change at any time.

If Congress could set the formula for our rates, we feel the rates would be much more stable. Although this Trimble bill was introduced in January of this year, a similar or like bill was also introduced 2 years ago, and a hearing was supposed to be held a year ago and was postponed due to the death of a witness. It never was called back. So this bill has been before Congress for quite awhile.

Thank you, Mr. Chairman.

Mr. DAVIS. Thank you, Mr. Shaw.

Are there any questions?

Mr. Edmondson?

Mr. EDMONDSON. I want to compliment Mr. Shaw on a fine statement, and ask him if my understanding is correct that the rate which Southwestern Power Administration is presently charging the aluminum company in Arkansas for similar power service to what they are giving you is less than half the rate that you are paying. Is that correct?

Mr. SHAW. That is my understanding. My understanding is that they didn't increase the rates to the aluminum company, and our rates were increased about 27 percent.

Mr. EDMONDSON. In fairness to them, in my conversations with them they would like to increase the rate but they are tied to the contract and can't increase it.

The point I would like to make, your rate is over twice the rate that they are charging this aluminum company in Arkansas for the tremendous volume of power which it is supply them.

Mr. SHAW. I don't know exactly what rate they are charging, but my understanding is that it is something like that.

Mr. EDMONDSON. Thank you.

Mr. MACK. Does your organization have a contract with SPA?

Mr. SHAW. Yes, sir.

Mr. MACK. Is the rate as specified in that contract?

Mr. SHAW. Yes, sir.

Mr. MACK. Does the contract continue over any period of years?

Mr. SHAW. It is subject to change at any time. Subject to review at any time.

Mr. MACK. And the contract with the aluminum company is not?

Mr. SHAW. That is my understanding. I haven't read the contract.

Mr. ROBISON. How about Southwestern Gas & Electric? Is that a private utility?

Mr. SHAW. Southwestern Gas & Electric Co. has a contract for a certain length of time, and after that period of time is up it continues from year to year. They went down when SPA—the price of power went down when SPA's power did, and went up when SPA's power did.

Mr. ROBISON. This contract is with you?

Mr. SHAW. Yes, sir.

Mr. ROBISON. For what length of time is that contract?

Mr. SHAW. The contract says for 5 years, but after 5 years it is continued from year to year. Unless notice is given by one of the contracting parties it continues to be in effect.

Mr. ROBISON. It is a private utility company?

Mr. SHAW. Yes, sir.

Mr. ROBISON. As such are its rates set or determined by some public service commission or whatever the title might be in your area?

Mr. SHAW. No, it isn't. We don't have any public service commission in Texas.

Mr. ROBISON. There is no State body that reviews the proposed rates of the utility company?

Mr. SHAW. No. It is arbitrary with them. They can raise or lower it without any commission's permission.

Mr. DAVIS. Mr. Baldwin?

Mr. BALDWIN. I have one question. As I understand it, the passage of this bill, as I interpret it, would probably affect the power rates in two respects. First, it would eliminate this taxes foregone provision, and therefore make a reduction in the power rate because of that elimination; secondly, it would change the allocation of cost between power and other features of dams, such as flood control, and reduce the allocation of costs applicable to power and therefore reduce your rates.

Do you have any feelings as to which of those two reductions in your opinion is the most important to you?

Mr. SHAW. I don't know that I follow you exactly on that question. I think the allocation of cost probably is the important one.

Mr. BALDWIN. You feel more strongly on that than you do on the elimination of the taxes foregone provision?

Mr. SHAW. Yes, sir.

Mr. BALDWIN. That is all, Mr. Chairman.

Mr. DAVIS. Thank you very much, Mr. Shaw.

Governor?

Mr. MCMATH. Mr. Earl King, manager of the Iowa Rural Electric Cooperative, at Des Moines, Iowa.

STATEMENT OF EARL L. KING, GENERAL MANAGER, IOWA RURAL ELECTRIC COOPERATIVE ASSOCIATION, DES MOINES, IOWA

Mr. KING. Mr. Chairman, gentlemen of the committee, my name is Earl L. King. I am the general manager of the Iowa Rural Electric Cooperative Association, which represents 50 rural electric distribution cooperatives and 5 generation and transmission cooperatives in Iowa, serving 136,000 rural families in Iowa.

At this point I would like to express my regret that Mr. Holum, the executive director of this association, was unable to present his testimony orally, and would like to refer the committee to his testimony for a comprehensive analysis of the effect of this legislation on the upper basin States.

It does have a pronounced effect on the upper basin States involved in this Midwest Electric Consumers Association. I will confine my brief remarks to the effect on the State of Iowa.

Approximately the western one-third of Iowa is located in the "marketing area" of the U.S. Bureau of Reclamation, so designated for the marketing of hydroelectric power from the main stem dams of the Missouri River.

Currently, only 12 of the 24 Iowa rural electric distribution cooperatives, located wholly or partially in the marketing area are receiving the benefits of hydroelectric energy from the Missouri River projects. Only 11 of the 30 municipally owned electric systems in the marketing area, who are also preference customers, are currently receiving Missouri River power.

We are currently asking Congress to appropriate funds for the construction of the necessary transmission line to bring Missouri River power to all the preference customers in the Iowa marketing areas, all of whom now have an allocation.

I am happy to report that this provision was in the appropriations bill that passed the Senate last evening.

I point out this present situation to demonstrate the vital interest which we in the State of Iowa have in H.R. 8.

Iowa, and particularly western Iowa, is in a high-cost fuel area. The Bureau marketing area in Iowa contains some of the State's more marginally productive land. Adequate rainfall is less certain in this area. This makes the cost of power of even more importance to farmers in western Iowa.

Even the limited extent to which we are currently receiving hydroelectric energy from the Missouri River has had a pronounced effect in stabilizing power rates throughout the entire State.

The preference customers of Iowa are deeply concerned with cost allocations of the multiple-purpose projects in general and specifically those of the Missouri Basin. Our interest relates primarily to the cost allocations assigned to power features and to the power which is available for sale from these projects.

The rates we must pay for power are directly controlled by the costs allocated to power and the power available for sale. Our position *is to strongly support H.R. 8, which places in the hands of Con*gress the responsibility for assigning costs to the various multiple *features of projects constructed by the Federal Government.*

Our own experience illustrates what happens when the executive *departments do not have ground rules laid down for them by Con*gress. Originally 31 percent of the cost of the Missouri River projects was allocated to power and navigation. However, since 1953, completely arbitrarily, as far as we know, the Bureau of Reclamation has revised these allocations and now allocates 63 percent to power and 22 percent to flood control and navigation. The only possible relief we have is to appeal to this committee and the Congress.

We also believe that the best interests of all people affected by these projects in the Missouri Basin will best be served by Congress assigning priority allocations of water to the various multiple purposes. We observe that substantial disagreement exists on the use of water for the various purposes, although the O'Mahoney-Millikin amendment was established to eliminate misunderstandings of this nature.

For example, the groups most interested in navigation are urging an extension of the navigation season. Water released for navigation produces large amounts of nonfirm power which is sold at low rates.

Any extension of the navigation season would decrease further the water that is available to produce firm power that brings the highest financial return to the Government. The only logical result of such a reduction in firm power would be an increase in rates on the remain ing firm power to assure the same revenue.

This example demonstrates why we believe there should be congressional control over cost allocations and other matters pertinent to multiple-purpose projects.

In conclusion, I would like to say that I have been working for Iowa farmers for 21 years and I know that they have neither the time nor money to match wits with a dozen different agencies, a host of engineers, attorneys, and so forth, in seeing that their interests are protected in matters as complex as those now under consideration by this committee.

I, therefore, urge the favorable action of this committee on H.R. 8 as a means of insuring the farmers I represent of a fair and unbiased determination, by the Congress of the United States, of the allocation of the costs and benefits of Federal multipurpose projects.

Thank you, Mr. Chairman.

Mr. DAVIS. Thank you, Mr. King.

Are there any questions?

Some of this is cumulative. It is a fine statement. Because you are not asked some questions don't think we are not interested. We are

building the record, and some of it is cumulative. Of course, every statement adds emphasis to the whole proposition.

Thank you very much.

Governor?

Mr. McMATH. Mr. Floyd G. Taylor.

Mr. Chairman, I might add we have only two more witnesses following this one.

Mr. Taylor is manager of the Farmers Electric Cooperative at Greenville, Tex.

STATEMENT OF F. G. TAYLOR, MANAGER OF FARMERS ELECTRIC COOPERATIVE, GREENVILLE, TEX.

Mr. TAYLOR. Gentlemen, my name is F. G. Taylor. I am manager of Farmers Electric Cooperative, Greenville, Tex.

This cooperative is located in north Texas, serving 5,500 farms in 11 counties in this area in some of the best black land farming area in the State of Texas. Numbers of farms which our cooperative serves have been abandoned, leaving our investment in these farms idle.

In 1957 our wholesale power rates were increased by 25 percent. This increase, added to the number of idle services, has cut our income to a point that we must increase our rates to our members.

The passage of the Trimble bill would greatly relieve us of this increase in rates to our members; therefore, we earnestly solicit your support of this bill.

Thank you, gentlemen, for your time.

Mr. DAVIS. Thank you, sir, for your statement.

Mr. McMATH. Mr. J. L. Johns, manager of the Upshur Rural Electric Cooperative, Gilmer, Tex.

May I say that I have the answer to Mr. Mack's question as to the number of cooperatives in the United States, if the Chair would like to have them at this time.

Mr. DAVIS. We would.

Mr. McMATH. There are 982 cooperatives in the United States, and the number of members are 5,151,653.

Mr. DAVIS. It is a big organization.

Mr. MACK. When you speak of the cooperatives, is that only the rural cooperatives?

Mr. McMATH. Yes, sir. That doesn't include G. & T.'s or municipalities or public utility districts.

There are 49——

Mr. MACK. What does G. & T. mean?

Mr. McMATH. Generating and transmission plants.

There are 49 public power districts, and 24 power companies, and other public bodies, 27, making a total, of which the co-ops are interested in, of 1,082, if you include the G. & T.'s and the others.

Mr. MACK. Do any of these co-ops generate power of their own?

Mr. McMATH. Yes, sir; G. & T.'s generate their own power, at least a big part of it.

Mr. MACK. Both hydroelectric and steam?

Mr. McMATH. No, sir; steam.

STATEMENT OF J. L. JOHNS, MANAGER, UPSHUR-RURAL ELECTRIC COOPERATIVE CORP., GILMER, TEX.

Mr. JOHNS. Mr. Chairman and members of the committee, my name is J. L. Johns. I am manager of Upshur-Rural Electric Cooperative Corp., Gilmer, Tex.

The organization I represent is located in parts of 10 northeast Texas counties, and is serving approximately 10,000 members with 2,400 miles of rural distribution lines. The farming operations in this area are small units with a number of dairy and poultry farms of which their very economic existence depends upon the cooperative serving them with dependable low-cost electric power.

My appearance before this committee today is to appeal to you that in my opinion the Congress of the United States needs to pass legislation that will give stability to the wholesale power rates to power generated at multipurpose projects owned by the Government. I want to make myself clear now that I am not asking for a subsidized power rate but at the same time in my opinion the rates charged now are not realistic in that they do not carry out the original intent of the Flood Control Act.

It is my understanding that the primary purpose of any dam constructed under the Flood Control Act is for flood control, and any other benefits are incidental and must stand on their own footing costwise. I cannot agree that this has been the case as to cost of generation of power in the SPA area. From information that I have, power is paying for approximately 60 percent of the total cost of the projects in the SPA area.

In 1956 costs were reallocated in the SPA projects which resulted in an increase of approximately 25 percent in the cost of power to the cooperatives. I might add to my statement here that at the time that the costs were originally reallocated, if the cooperatives within the area and other purchasers of this power had not contested, there would have been a 40-percent increase in the cost of wholesale power.

In the Southwest area the cost of wholesale power from Federal projects is the yardstick. I would like to give you an example. We were purchasing approximately one-third of our power requirements from SPA in 1956, and the balance from Southwestern Gas & Electric Co.

Our rates were practically the same from both sources. Approximately 5.6 mills per kilowatt-hour. Immediately after SPA announced it proposed to increase its cost of wholesale power to us, the power company also notified us they were invoking the fuel clause in our contract. Although, a short time before the president of the power company told a group of cooperative representatives—and I was one of the representatives—that the company would not invoke the fuel clause until the price of gas reached 25 or 26 cents per million B.t.u.

At this date the company is paying less than 20 cents per million B.t.u. for gas, but our power cost has increased between 25 and 30 percent or to the level of the cost of the power we purchase from SPA.

The point I am trying to make is that in my opinion Congress should have the responsibility of setting the formula for the cost of power from Federal hydroprojects which should include the cost of the generating facilities and other directly related cost and cost

of such projects should be amortized over the life of the projects based on sound engineering which I understand exceeds 100 years on the majority of hydroprojects.

In my opinion the increase in the cost of power from SPA in 1956 was not based on realistic engineering data as to actual cost of power facilities but power cost allocations were increased so that overall wholesale cost of power could be increased. To me it is not good judgment to let administrative agencies have the power and responsibilities of setting the formulas of allocating the cost of power from Government multipurpose projects. I understand that hydroelectric power has been charged up to 90 percent of the total cost of the project.

I cannot understand how a project could be called a flood control project with power paying 90 percent of the cost. If you will excuse the expression it looks to me like the tail is wagging the dog on a number of the multipurpose projects.

In conclusion, I respectfully ask this committee to give a favorable report on H.R. 8 and seek the passage of this legislation so that the responsibilities of allocating cost on multipurpose flood control projects will be vested in Congress rather than to the whims and wills of an administrative agency.

I thank you gentlemen for the opportunity of appearing before you.

Mr. DAVIS. Thank you very much, Mr. Johns, for a good statement. Governor McMath?

Mr. MCMATH. Mr. Chairman, our next witness is Dr. Henry Blalock. I am sure the members of this committee know Dr. Blalock. He is particularly qualified to testify on this bill. He was principally concerned in assisting Judge Trimble in the original drafting of the bill.

Mr. DAVIS. I am glad to see you again, Dr. Blalock.

STATEMENT OF HENRY W. BLALOCK, SR., CONSULTANT, CENTRAL ELECTRIC POWER COOPERATIVE, JEFFERSON CITY, MO.

Mr. BLALOCK. Mr. Chairman and members of the committee, my name is Henry W. Blalock, Sr. I reside at 9211 Kingsbury Drive, Silver Spring, Md., with offices at 1830 Jefferson Place NW., Washington, D.C. I am in the private consulting business in the electric utility field.

I am here representing the Central Electric Power Cooperative at Jefferson City, Mo.; N.W. Electric Power Cooperative at Cameron, Mo.; and Western Farmers Electric Cooperative at Anadarko, Okla.

Mr. Chairman, on March 27, 28, and 29, 1958, I appeared together with many of these same witnesses before the Subcommittee on Irrigation and Reclamation in support of this legislation. Our testimony on that occasion is before you in H.R. 7362, serial No. 24. What we said then is just as applicable today; our testimony before you today reaffirms what we said then. We hope we have proven our case sufficiently to cause positive action on your part to get this bill enacted into law.

Mr. Chairman, since you have the testimony of last year before you, perhaps I could be of most help to the committee if I summarized some of that testimony, and if I made myself available for such questions as the committee desires to ask. Not that I promise to an-

swer all the questions, but I will be of as much help to the committee as possible.

We think, Mr. Chairman, that under the separable cost-remaining benefits method of cost allocation, which has been adopted in recent years by the administrative agencies that what they are actually doing is upgrading the costs assigned to power.

This ultimately results in higher costs of power and necessarily it follows that the wholesale rate charged for power must be increased.

In the testimony of Mr. Robinson last year, where he took a number of projects, he showed that the application of the separable cost-remaining benefits theory, as contrasted with the incremental costs which we are advocating, that the costs would be increased on a large number of projects by approximately 10 to 12 percent. That is found at page 105 of his testimony.

I believe he had 22 projects in that table, which is exhibit B at page 105 of the printed record. The total costs of these projects totaled approximately $3½ billion. By the separable cost-remaining benefits theory 61.3 percent of the cost would be assigned to power, whereas under the incremental method 50.8 percent would be assigned to power.

So the increase there is approximately 10 to 12 percent.

Of course that would vary from project to project.

Mr. Chairman, we think that the incremental cost does assign a reasonable share of the joint costs to power. I am using here the term "joint cost" in its more acceptable sense as being the difference between the specific costs and the total costs. We are using incremental costs here the same as separable costs. Of course under the separable cost remaining interest theory they redefine joint costs as being the difference between the separable costs and the total costs of the project.

There would be no part of joint costs in incremental or separable costs, but under the more acceptable definition of joint costs, being the difference between the specific costs and the total costs, then the incremental cost does share in the joint costs of the project and we think an equitable share.

At pages 116 and 117 of my testimony of last year I have a specific example pointing that up. We believe, Mr. Chairman, that the power values or benefits of these multiple-purpose projects are being downgraded by the administrative agencies. This has a cumulative effect to the point I have made prior to this. If you upgrade the cost and downgrade the benefits, the two are cumulative. This comes about, Mr. Chairman, by the requirement in the administrative agencies in Bulletin A–47 that the cost of a federally developed steamplant must be considered as an alternative source of power.

I think it is quite evident to you gentlemen that the fixed charges on a federally constructed steamplant would be considerably lower than on a privately constructed steamplant. In my previous testimony I showed that the fixed charges are about one-half on a federally constructed project to what they would be on a privately built project.

If the benefits are going to be determined by what it would cost to build an alternative source of supply in a federally developed project, then it is tantamount to reducing the benefits by a considerable amount because of that difference in the costs.

The value of power would have a lower value in federally built projects because the costs would be lower than in a privately financed alternative steamplant. We believe this legislation would correct that. If there is a real possibility of a Federal steamplant where one has been authorized, then we think it would be perfectly reasonable to use it.

But there is no federally built steamplant in the Southwest, only in the TVA area. There is none likely to be built in the immediate present. So we think to value this power on the basis of a nonexistent and theoretical plant that does not exist and has little opportunity of existing at the present time, certainly in the foreseeable future, is downgrading the benefits from power.

We believe also, Mr. Chairman and gentlemen, that the law and administrative procedure applicable to the scope of benefit determination should be modernized to bring them into current reality.

There has been considerable discussion before you gentlemen about many of these other purposes of these multipurpose projects. At the present time they are not being assigned, we think, their proper share of the costs, and we think they should be. Recreation, we point out particularly.

There are other things such as pollution abatement control, conservation storage, downstream benefits, salinity control, and many other features of the multipurpose projects that should be bearing their proportionate share of the costs of these projects.

Those costs should be assigned to them. If they are assigned their proper share of the costs, then necessarily there would be less of the costs that go to flood control and to power and to irrigation and navigation, and so forth, because you would be dividing the total costs into more parts, and each one bearing its proper and equitable share of the overall parts of the total costs.

We believe the law should be modernized and streamlined so that these other benefits, where they exist, should be properly considered and their proper share of the costs assigned to them.

We believe also, Mr. Chairman and gentlemen, that the period of amortization is entirely too short. That has been discussed fully before you, and perhaps it is not necessary to dwell upon that. But I, too, Mr. Chairman, have flown over the great Bull Shoals and Norfork projects. Not so recently as you, but many times in the last 4 or 5 years since they have been constructed.

As a matter of fact, Mr. Chairman, I was a member of the Arkansas commission from 1937 to 1941, and I appeared in the hearings before the Army Engineers and did as much as I could to promote the development of those two projects up there, as well as Table Rock and the others that we hope will come on in the future.

When I look down upon those great massive structures and think that we are amortizing the cost of them in 50 years, it just seems preposterous to me. We know those projects are going to be there for hundreds of years. Long after every man in this audience today has been buried and long since forgotten those projects will be there and rendering service to our children and grandchildren and great grandchildren of the future. To pay them off in this generation, in 50 years, seems to be unreasonable, Mr. Chairman, and so unrealistic that

we hope that the law can be changed so that some realism at least will be injected into this payout.

I do not know how we ever came across this miracle—50 years. Perhaps it was in the Federal Water Power Act of 1920 when we decided that these privately constructed listed projects perhaps should be recaptured in 50 years, and that was put into the law, and so we kind of perhaps inherited this 50-year magic formula for payouts.

We think it is much too short and should be lengthened. We believe that the present method recommended in circular A–47 with respect to interest-rate determination is unreasonable. The formula A–47 would determine the interest rate on long-term obligations of the Federal Government of the preceding year in which the project is to be built, if I understand it correctly.

That would mean as interest rates would vary from year to year that there might be considerable variation, and the interest rate perhaps on Norfork might have been quite low and on Bull Shoals very high.

If the project was built in a year when intereste rates were very high, it would be paid out on a very high interest rate. And if the interest rate should fall sharply in the next year or two, those projects built in those years would pay out on a very low interest rate. We think a longer period of time, so as to get some average rate, would be more sensible to use. And since the Federal Government today does most of its financing upon short-term obligations, and most of this money, Mr. Chairman, that goes into these projects is for projects raised on short-term obligations, and a 15-year period not only of short term but long term as well should be considered over a 15-year period prior to the construction of the project and the average of those 15 years used as the interest rate.

We think that would be more equitable and a more businesslike approach to this than to use the interest rate of the preceding year based upon long-term obligations when the Federal Government has very few long-term obligations in these years of financing.

Mr. Chairman, I think we have made it abundantly clear that we do not like this matter of taxes forgone.

I might say, Mr. Chairman, that was employed by the Federal Government. I was a member of the Department of the Interior for a number of years and I sat in on many of these conferences in which the "Green Book" was developed and some of the background which later came into A–47. I was much impressed that many of those representatives of those agencies were staying up nights trying to find new things to put in these procedures that would raise the cost of power. They have succeeded in A–47, I think, in writing into the administrative procedure many of those things which had for their purpose the cost of raising the cost of federally produced power.

Mr. Chairman, with respect to section 5(b), which has run into controversy here, I do not think it is the purpose of the authors of these bills to put the Corps of Engineers or any other agency in a straitjacket so that they must recommend favorably based upon the benefits-to-cost ration. Perhaps the language might have been a little unfortunate there. I would suggest that perhaps lines 15 to 21, such language as this might be substituted, at section 5(b):

The policy is hereby established that the agency making the report shall base its recommendation on all facts developed in the study and reported to the Congress.

What we are tremendously interested in is that all of the facts get before this committee. Regardless of what the agency's recommendation might be, if you have all of the facts, we think you will arrive at the right decision.

Mr. Chairman, there has come up in the course of the discussion before this committee the question of will the method of cost allocations increase the cost of the project.

Of course no method of cost allocation will have any bearing upon the total cost of the project. What we are talking about here is once the cost is determined, how are we going to divide it up among the various purposes for which the project is to be built.

Whether you use the separable cost-remaining benefits theory or any other theory will not have any bearing upon the total cost of the project. That is determined otherwise.

But how that total cost is to be divided as between flood control and power and irrigation and recreation and pollution control and abatement and all of the other purposes which develop, is the very problem that we are talking about.

We think, of course, that too much of the total cost has been assigned to power. If too much of the total expenditures is assigned to power then necessarily too much of the fixed charge are assigned to power. That reflects, of course, in the cost of that power.

Not only from the fixed charge standpoint, Mr. Chairman, but also from the cost of operating the project, that also gets a larger share given to power because there are joint operating costs. When you apply the separable costs-remaining benefits theory to the operation of the project you end up with a substantial larger part of the operating cost being assigned to power than you do when you would use the incremental method.

So not only in the allocation of the investment in the project reflected in the annual requirements to meet the costs on that fixed investment, but likewise a larger share of the joint operations of the project are assigned to power. So they are cumulative in their effect.

A question has been raised, would the adoption of this method make it more difficult for private enterprise to develop hydroelectric projects? I think that the answer to that, Mr. Chairman, is no. As I see it, it would not make it more difficult. As a matter of fact, if it was one of those projects that were shared, partnership projects, where the Federal Government is picking up all the costs except those assignable to power, then this method would make a smaller share of the total cost assigned to the private enterprise that might be building the joint or partnership project.

And, if anything, that would be helpful to private enterprise rather than being any sort of burden upon it.

And if it were not a partnership project, and private enterprise were building the project, then it would be building it with the cost of the power in it, because private enterprise, although it may be interested in these other things, is a profitmaking enterprise and it must look to power to get its revenue and its profits. And so it would have no bearing upon it.

Either way you go, whether it is as a partnership project or whether it is one built wholly by private enterprise, it seems to me the adoption of this might be helpful, and certainly it would not be harmful to private enterprise in developing these projects if it desired to do so.

The question has been raised, Would not the adoption of this incremental method raise the tax burden to the taxpayer?

The assumption, I think, is that if a smaller part of the cost is assigned to power, then inevitably a larger part would be assigned to the other purposes other than power.

If those other parts then have to be or are nonreimbursable and the taxpayer has to pay, then would not his tax bill be somewhat larger than if power shared?

If we went no further than that, yes, that would be true. It would follow, I think, that if a smaller part of the total cost were assigned to power that necessarily a larger share would be assigned to the other purposes. But if more of these other purposes—some of which are reimbursable—were brought into the picture for their share of the costs, actually the end result might be a smaller part being borne by the nonreimbursable.

Mr. Chairman, the equitable thing is the thing to do. Merely to make the tax burden lower by using a method that would assign an unequitable share of these costs to power is certainly not desirable. If we have been doing that—and we think we have been, that the administrative agencies have been assigning too much of these costs to power—then power has been advising these other purposes and power has been bearing more of the burdens than it should, and either the other reimbursable purposes or nonreimbursable purposes should be bearing the burden either through the tax processes or through the charges for these other purposes.

If the charge is to be leveled as to whether there is a subsidy or not, and if this whole scheme that we have before you in this bill is to subsidize power in the Southwest, or power in the Southeast, or power in the New England States, then I think perhaps, if anything, power is now subsidizing rather than being subsidized, and the purpose of this legislation is not to subsidize power but to properly adopt a method which will eliminate the subsidy that power is now making to the other purposes of these multipurpose projects.

Mr. Chairman, in closing, I would like to say that I appreciate very much the interest you have shown and the opportunity to appear before you for my clients.

I am very happy to make these remarks. We do not believe this is a perfect bill. We know you gentlemen, with all the facts before you when these hearings are over, perhaps can amend and improve the bill over what it was before.

We hope when it finally comes out that it will not be emasculated but will embody the main fundamental objectives which we have sought in this legislation.

Mr. DAVIS. Doctor, out of your long and rich experience you have been very helpful.

Mr. BLALOCK. Thank you, sir.

Mr. DAVIS. You have made a very thorough analysis of this bill. I know that we appreciate your appearance before us today.

Mr. BLALOCK. Thank you.

Mr. DAVIS. Are there any questions?

Mr. Mack?

Mr. MACK. Dr. Blalock, I agree with the chairman that you have made a most factual and very persuasive statement on behalf of your client. I would like to ask you this question: Under this legislation power will receive a somewhat different treatment than it is now re-

ceiving which will be beneficial to the development of the power phases or multipurposes of the project.

Do you see any reason why domestic and industrial water supplies, which go to local communities, local municipalities should not receive the same benefits under this legislation that are proposed for power?

Mr. BLALOCK. They are incidental as we think power is and should have the same treatment.

Mr. MACK. In the middle of page 1 of your statement, beginning with item 1:

> Costs assigned to power in multipurpose projects are being upgraded by administrative agencies of the Government so that too great a part of the total costs of these projects is being assigned to power.

Are you basing that largely upon Budget Directive A–47?

Mr. BLALOCK. Yes, the taxes forgone feature.

Mr. MACK. Taxes forgone are a part of A–47 as well as other subjects——

Mr. BLALOCK. That is right.

Mr. MACK. The Budget Bureau brought forth that directive because Congress had taken no action to establish a formula or criteria for the establishment of costs in multiple-purpose projects. Those have become directives to the Army Engineers and other services because the Budget Bureau has directed that that be done.

You say they are being, and I thought maybe that implied that they are being done right now, but it means that they were being done since 1952.

Mr. BLALOCK. Ever since A–47 was adopted.

Mr. MACK. Over the period of years and through this period neither a Republican Congress nor Democratic Congress for some reason has seen fit to establish criteria that would overcome the objectives to A–47.

Mr. BLALOCK. That is correct. We think perhaps Congress has waited too long already to do that, and it should be done.

Mr. MACK. I agree. Congress should make the regulations.

Mr. BLALOCK. Precisely.

Mr. MACK. Rather than an administrative agency.

Mr. BLALOCK. Yes, sir.

Mr. MACK. That is all, Mr. Chairman.

Mr. DAVIS. Mr. Cramer?

Mr. CRAMER. I, too, want to join in saying that I believe your statement is quite clear and it was very effectively presented. I do appreciate also that you further elucidated on the question I asked Senator Kerr and other witnesses with regard to whether or not the use of the incremental method would result in a larger portion of the total cost chargeable to nonreimbursable costs which we substantiated, but suggested that this might be offset, if I understood your position correctly, by other benefits being brought into the picture as suggested in the bill.

Mr. BLALOCK. That is true. If that is done it might actually reduce the tax burden.

Mr. CRAMER. I do not think I would go that far with you. I do appreciate your bringing out the fact that there will be additional increased costs if the incremental method is used in, attributable to nonreimbursable portions of the project.

You stated it much better than I, and I appreciate your bringing that out so forcibly. That is all that I have, Mr. Chairman.

Mr. DAVIS. Mr. Edmondson?

Mr. EDMONDSON. I would like to compliment the witness, particularly on the point that he has made that we have a situation today in which power is being asked to subsidize other legitimate purposes of these projects. I think in the case of most of the projects that I am acquainted with in the Southwest, either flood control or navigation have been the principal reasons for it in practically every instance, and yet, under the new approach that it being taken, people who are getting the benefits of the incidental purpose of power in the projects are being asked to subsidize those other purposes to an increasing degree.

I think the gentleman has made a real contribution by pointing that out. As a matter of fact, I have heard power described by one colleague, who is not present here today, as the "cash register" on these projects. Just coldbloodedly expecting power to pay the bill for the projects, even when it is an incidental part of the construction of the project.

I think that point of view is prevalent among the irrigation areas of the country.

I would like to ask you to comment, if you would, on this matter of obsolescence, on whether you feel that the factor of obsolescence is a substantial matter to be considered in the payout period.

Mr. BLALOCK. If I was considering a steamplant I would think that obsolescence would be much more important a factor than in hydroplants. Steamplants are high-pressure, high-temperature, high-speed mechanisms, which are very intricate. But hydromechanisms are very large, very heavy, very low revolutions per minute, and consequently this matter of obsolescence is not nearly so important in the hydroelectric field as in the steam field.

Moreover, in the steam field of course we must get greater and greater efficiencies, get more kilowatt-hours out of each ton of coal, and we are doing a very fine job and improving all the time on that. Because of these technological advances it makes the older machines have a certain degree of obsolescence in them.

That same thing does not occur in the hydro field. Although we do make improvements, they are not so great as in the steam field.

Mr. EDMONDSON. In what might be called a normal location of cost to power in a dam, what percentage of that cost would you say would represent the parts of the whole structure contributing to production of power that would be subject to any obsolescence?

Mr. BLALOCK. That would vary. As a general rule the percentages would be relatively low because so much of the investment is in land structure, in land, under the reservoir, and all those sort of massive features, to which there would be no obsolescence.

We used to think of obsolescence of these hydroplants in terms of atomic energy. As a matter of fact in these areas of the country where power is incidental, the great value, as Senator Kerr pointed out, is in its peaking use, where it is integrated with the thermal generating steamplants, and where these hydroplants, which are peculiarly fitted to handling peak loads and for other purposes, where they are used on the peak of the thermal systems, we use the thermal plants for base loading and the hydroplants for peaking.

By that we mean that we operate the most efficient steamplants over a 24-hour period and then when our peaks come on, we turn on the hydroplants for a period of 6, 8, or 10 hours, and then for the remaining hours of the day they are not operating and water is being stored in the reservoir.

That is the most efficient way to operate them.

An atomic plant, as we know it today, is a thermal plant in which we use atomic energy rather than coal or oil or gas or some other fuel, and so when we end up with the kilowatt-hours or kilowatts of capacity we still will need and still will get the benefit of using our hydro for peaking in the atomic plants in the same way as we would in peaking our present thermal plants using fossil fuels.

Mr. EDMONDSON. In other words, the atomic plant will not be any more adaptable to a peaking function than is the steamplant or the plant that operates on coal or oil or gas?

Mr. BLALOCK. Yes. And if we assume, Mr. Edmondson, that the fixed charges in the atomic plant are higher than the fixed charges in a fossil fuel plant, then perhaps the peaking of the hydro will be even more advantageous than it would be at the present time.

Mr. EDMONDSON. I would like your comments upon the justification, of which a good deal has been made in the presentations here, of this idea that the Trimble bill makes it possible to view a basin as an entirety, and to take a unit in basin development which individually might not justify, might even be considered an uneconomic increment, I think, of the whole system, but under the basin approach authorized by this bill it would become a feasible and a practical project and one that would justify.

Mr. BLALOCK. Mr. Edmondson, I think we need to take the next step in this matter of overall basin planning and basin development. If you go back a period of 50 or 75 years, our theory and practice was that we would do it project by project; we would do 10 miles of leveler, 5 miles of revetment there, and some more leveling further down. We would build in this location this little piece, and that is how we built it, piece by piece and section by section. When the great flood of 1927 came—and most of these projects in the Southwest really resulted from the flood of 1927, that is when this whole matter of flood control really was highlighted in this country; when the Mississippi River was 100 miles wide and all these tributary streams, and a great portion of that valley down there was inundated, then the Nation work up to flood control as a nationwide problem and that we ought to do something about it with massive structures within the stream itself.

Still we went ahead project by project, and we thought of the Norfolk project, or the Bull Shoals project, and finally we came around, gentlemen, to this idea that maybe we ought to look at the whole stream and plan for the development of the entire stream. We are doing that today, and I think that is a forward step.

So we are planning for the development of the Arkansas River Basin and for the White River and its tributaries basin and for the great Missouri Basin and other rivers over the country.

We are thinking now of them as basins and planning the entire development of the river basin. Why can't we take the next step, logical step, and determine the feasibility of these also on a basinwide basis rather than project by project, piece by piece, item by item? That seems to me to be the logical step to follow. Some seem to think that

some little part here, which is vital to the development of the entire river basin, standing all alone and by itself, will not prove feasible. That is uneconomic. It isn't uneconomic if it is vital and important to the development of the entire river basin. It is a perfectly normal thing in all business operations. It isn't every little nook and corner of business that makes a profit. We would like to have it that way, if you could.

Mr. EDMONDSON. What you want this committee to do is to apply to its thinking on water development and on justification for water the same kind of statesmanship that was applied in coming up with the Interstate Highway System and in looking at our road needs in terms of national needs and regional needs rather than just local needs.

Mr. BLALOCK. You have stated it much better than I.

Mr. EDMONDSON. No further questions.

Mr. DAVIS. Mr. Baldwin?

Mr. BALDWIN. On page 2 of your statement, under subsection 3, Mr. Blalock, you say:

> We believe the law and administrative procedure, applicable to the scope of benefits determination, should be modernized to bring them into current reality. We maintain that present-day law and procedure limiting benefits attributable to recreation to those specific costs incurred in connection with recreational facilities is unrealistic and antiquated.

What would be your recommendation as to the allocation of costs to recreational facilities?

Mr. BLALOCK. That is a very difficult question. What we are doing now I am quite sure is wrong. If I understand you correctly, only those costs that can be specifically assigned to recreation, such as access roads, camps, boat landings, all of those sort of things, only those costs as I understand are now assigned to recreation. We know that that is unrealistic.

When we see these millions of people going and enjoying and spending as much money in this day and time, in living outdoors, we know that that approach is unrealistic. To give you a formula as to what monetary values should be assigned to recreation—I notice Mr. Bennett was not able to do that this morning, and perhaps Senator Kerr's bill comes as close to some arbitrary formula which might do justice to it as anything I know.

Mr. BALDWIN. Aren't you then saying that for recreational facilities the incremental cost system shouldn't be used but the system of separable costs, the very system we have now in effect for power, should be put into effect?

Mr. BLALOCK. No. I think the incremental method which would be the separable costs method would be satisfactory for recreation. What we are doing now is only those specific costs which are very minor compared to the total costs of the project for building a few access roads, a few camps and boat landings, which is a normal, insignificant amount now assignable to recreation.

Mr. BALDWIN. My point is that when you say that is not adequate for recreation, that is contrary to your argument for power, because for power you have taken the position that you should only assign to power the specific additional expenditures required for putting in the power facilities?

Mr. BLALOCK. No, sir; that is not my contention. My contention is that incremental costs and separable costs are the same, and separable costs are more than specific costs.

Mr. EDMONDSON. Will the gentleman yield?

Mr. BALDWIN. Yes.

Mr. EDMONDSON. I think that what the gentleman said on that is that as a cost factor only what is actually expended on adding the power features should be figured, but not from a benefit standpoint at all. I think that is the point you made with regard to recreation, that you ought to figure the benefits on a different standard than the costs.

Mr. BLALOCK. Yes. Benefits are tremendous, and due to that fact they can share in a much larger share of the costs than the minor specific costs that are being assigned today. If they did, of course, there would be less of the total overall costs for flood control and power and other things to bear because they would be taking up their rightful share of the total investment costs.

Mr. BALDWIN. Let me ask one other question. Let's go to this example again where a project, the amount allocated to navigation and flood control and all other purposes would amount to 60 percent of its cost, and the benefits allocated to power might be computed to 40 percent of its cost. So those, together, would make one to one from a benefit standpoint.

If we shouldn't give any consideration to power except any additional expenditures specifically made for the power facilities, would you advocate that we shouldn't build a project that only is 60 percent justified on the basis of navigation and flood control and all other features aside from power?

Mr. BLALOCK. If I understand your problem, it is that power would show 60 percent benefits and flood control and others 40.

Mr. BALDWIN. The reverse. All other benefits, and so forth, would be 60 percent, and power would be 40 percent benefits.

My question is, in that case, since the project isn't justified on any other basis except giving power 40 percent, would you advocate we not construct such project?

Mr. BLALOCK. Didn't you also say this morning that flood control without power would cost 90 percent as much?

Mr. BALDWIN. From the standpoint of construction; yes.

Mr. BLALOCK. It would cost 90 percent as much?

Mr. BALDWIN. But from the standpoint of benefits. In the first step which the Corps of Engineers has to take in determining whether a project is economically justified, in their computations they compute and determine that the cost of constructing it, that portion applicable to flood control and the rest is only 60 percent, so it wouldn't be justified on that basis. But they find that they can attribute 40 percent benefits to power. Would you advocate in that case we shouldn't construct it because it is economically not justified except for power?

Mr. BLALOCK. Your flood and other would produce 90 percent of the cost and 60 percent of the benefits?

Mr. BALDWIN. That is correct.

Mr. BLALOCK. Would you recommend that?

Mr. BALDWIN. I am asking you.

Mr. BLALOCK. I don't think I would.

Mr. BALDWIN. Then you are saying we should use a different benefit-to-cost ratio than we now use, not one to one, including power benefits.

Mr. BLALOCK. I was really going through this problem here at the time. I am sorry I didn't follow you. Would you state it again?

Mr. BALDWIN. My point is, unless we charge back to the power, the portion we attribute to it when we first determine whether a project is feasible, in effect under our present policy, using one to one, as to whether it should be authorized, we are in many cases authorizing a project that isn't economically feasible except for power, but we are not charging to power that portion we have had applied to it from a benefit standpoint to justify the project.

Mr. BLALOCK. There may be some projects where the project couldn't go forward unless power is included, and some perhaps couldn't go forward with power included. In the Pacific Northwest, where power it seems to me is basic to the development of those projects, we are not advocating that the increment of cost would be applicable. If we did, those projects perhaps would not be proved justified.

Power out there is not incidental. It is an important, very important feature in most of those projects. I am not intimately familiar with them, but I know generally about the situation out there.

If you apply the incremental method there perhaps the project could not develop. But also in the Southwest, due to the incidental nature of power there, if you apply the separable costs-remaining benefits you can't justify power, as the Senator stated, with respect to Oolagah, and perhaps Keystone, or perhaps one or two of the other projects in Oklahoma.

Power cannot be justified on the separable costs-remaining benefits. And so you build the project as a flood-control project, and for recreation and other purposes, and leave power out because you can't justify power on the basis of the separable costs-remaining benefits.

Mr. BALDWIN. If I understand you are saying that the Pacific Northwest should be handled in a different way, then in effect you are saying that this bill should be in some way restricted so that it wouldn't apply to certain sections of the country?

Mr. BLALOCK. I am not sure that the bill, as it is written, does provide where power is a basic source. Perhaps if it is amended to that, where power is basic, then the treatment certainly would be different than the incremental method of cost allocation.

Perhaps the bill might need to be changed so as to make it clear that the incremental method is not to be used when power is basic to the project, just as we are saying in these areas of the country where flood control and navigation are basic, then power should not be considered as the basic purpose there and use the separable costs-remaining benefits theory.

Mr. BALDWIN. If I understand this last point, your point is that in any case where we have to credit power, in order to justify the project from a benefits-to-cost ratio, in such case as that where we couldn't justify the project otherwise, then we shouldn't apply this principle of the incremental benefit.

Mr. BLALOCK. No, that would not be my contention. I would rather put it this way: Where power is the sole purpose or the basic purpose, then the incremental cost method perhaps should not be applied.

Mr. BALDWIN. Let's go back to this case of 60 percent for all other purposes, 40 percent power. You couldn't build a project unless you credited 40 percent power. Power is absolutely necessary, even though it is less than one-half, nevertheless it is basic to make that project a project of favorable benefit-to-cost ratio—which measurement would you take?

Mr. BLALOCK. The power wouldn't carry that much of the cost. What is happening there is that flood control and other benefits are riding on the coattail of power, and in a very substantial way. The net effect of that might be to cause power rates to be so high that power couldn't be sold in the market in that region.

Mr. BALDWIN. If the cost of the project in that case would be 90 percent without counting actual construction cost of the power facilities, and under this bill you would only charge the power users 10 percent, although we had to credit them 40 percent to justify it economically, isn't power riding on the coattails of the U.S. taxpayer to pay the other 90 percent?

Mr. BLALOCK. That is a very extreme problem. I doubt if a problem in reality would develop like that.

Mr. BALDWIN. There are many projects that we have had before us that wouldn't be justified, economically, except for the percentage applicable to power.

Mr. BLALOCK. But if you have to assign an unequitable share of the cost of power in order to justify the project, I wouldn't agree on that.

I think it should bear its equitable share of the costs.

Mr. CRAMER. Isn't it true that as the bill is drafted that on multiple-purpose projects, an incremental method would be used in all instances, whether power was the major portion of the project or otherwise?

Mr. BLALOCK. I don't think that is quite correct. It is silent on this question of where power is basic, where power would be the sole object.

Mr. CRAMER. It is applicable to any multiple-purpose project?

Mr. BLALOCK. No, I don't think that is a correct interpretation.

Mr. CRAMER. I would like to know how you reach that conclusion.

Mr. BLALOCK. I think it is silent with respect to that.

Mr. CRAMER. Would you refer to a section of the bill which indicates that my conclusion is not correct?

Mr. BLALOCK. I don't know whether I can pick up the exact language. But I am sure the bill does not make that compulsory except where power would be incidental, and where it is not basic.

Mr. CRAMER. I wish you would supply that information for the record. Would you, please?

Mr. BLALOCK. Yes, I would be glad to.

(The following was furnished for insertion:)

Mr. Cramer's question is important. The bill is silent as to what method of cost allocation should be used where the principal purpose of a unit or project is power. I agree that where the unit or project could or would not be built except for power and power is the principal purpose, some other suitable method of cost allocation may be used. To provide for this I suggest the addition of the following language:

At page 7, line 3, after the word "power" change the period to a colon and add the following language: *"Provided*, That where power is declared by Congress to be a principal purpose of the unit or project other suitable method or methods of cost allocation may be used."

Mr. CRAMER. I don't see the provision in the bill. As I understood, all the testimony submitted, including that of the Department, is on the assumption that it applies to all multiple-purpose projects.

Mr. BLALOCK. The definition of the term "principal purpose" means the purpose served by the unit or project in the absence of which development of the unit or project would not normally be undertaken by the Federal Government: Provided, That where a unit or project is part of a plan embodying an integrated river basin development, the principal purpose of the unit or project shall be the same as the principal purpose of the comprehensive plan.

If power was that purpose then it would become the principal purpose. But if it is not, then it would not be the principal purpose.

Mr. DAVIS. Are there any other questions?

Mr. ROBISON. I do not want to impose on the committee's time but I was very much impressed with the questions Mr. Edmondson brought out.

Can I refer you to page 9 of the bill, section 8–A, lines 6, 7, and 8, where it refers to the costs allocated to the features and facilities of the project other than land and land rights which relate to electric power?

Could you give me your opinion, sir, as to what that language would include. What would be the features and facilities that would be covered by such language?

Does that include the powerhouse, substation?

Mr. BLALOCK. What lines are you reading from?

Mr. ROBISON. Lines 6 and 7, page 9.

Mr. BLALOCK. We exclude land and land rights because they do not depreciate.

Mr. ROBISON. You exclude the dam?

Mr. BLALOCK. No, just land and land rights.

Mr. ROBISON. Would this phrase include a part of the cost of construction of the dam?

Mr. BLALOCK. Oh, no. Just the cost of the land and land rights because the land and land rights would not depreciate.

Mr. ROBISON. You misunderstood me. Features and facilities relating to electric power of some part of the dam itself would be considered in your judgment as relating to electric power?

Mr. BLALOCK. Oh, yes. Understand, sir, I am differentiating between obsolescence and depreciation.

Mr. ROBISON. Features and facilities of the project relating to electric power; would that phrase include the substations?

Mr. BLALOCK. Everything about the project would depreciate except land and land rights. Even the dam itself, if it lasted a thousand years, it would depreciate.

Mr. ROBISON. My own definition of land would include, would it not, a dam? Certainly the power stations built on land become a part of the land.

Mr. BLALOCK. No, sir; that is not my understanding. The structure itself would not be land. Only the physical earth would be land and your rights to the physical earth would be your rights to the land rights.

Mr. ROBISON. So that this phrase would include not only the contents, that is, the machinery——

Mr. BLALOCK. Everything pertaining to land or land rights.

Mr. ROBISON. It would also include a part of the dam?

Mr. BLALOCK. I say everything except land and land rights would depreciate. And the annual depreciation charges should provide for it.

Mr. ROBISON. Then we have a question of definition of land and land rights. Somebody has to determine what that means somewhere down the line in order to apply this section, don't they?

Mr. BLALOCK. Yes. But I am using it in the sense that the land is the physical earth, and the rights would be the person's legal rights to that physical earth. It is the land. All of the structures on it, I am not considering that as land. They would depreciate but the land itself would not depreciate.

Mr. ROBISON. I think you have answered my question.

Mr. DAVIS. Thank you very much, Dr. Blalock.

Gentlemen, we were here yesterday, and we have had a long day today. The last witness represents the Association of American Railroads, and he is in Washington all the time. If there is no objection—we are going to have many more days of hearings, because we have all these departments to hear from—I would like to adjourn this meeting, subject to the call of the Chair.

Mr. BEHLING (Association of American Railroads). Mr. Chairman, can we be assured that we will have opportunity to be heard?

Mr. DAVIS. You never did see us fail to do it, did you?

Mr. BEHLING. No, sir.

Mr. DAVIS. I do not appreciate your statement at all.

Mr. BEHLING. What I meant to ask is will we be assured that there will be continued hearings?

Mr. DAVIS. You heard me say that we will have many days of hearings. I have said that over and over and over.

Mr. BEHLING. Very well.

Mr. DAVIS. Off the record.

(Discussion off the record.)

Mr. DAVIS. On the record.

We would like to include at this point in the record the statements of Mr. Gus Norwood, executive secretary of Northwest Public Power Association, and the Honorable Wilbur D. Mills, from the Second District of the State of Arkansas.

(The statements referred to are as follows:)

STATEMENT OF GUS NORWOOD, EXECUTIVE SECRETARY, NORTHWEST PUBLIC POWER ASSOCIATION, RELATING TO H.R. 8

Mr. Chairman and members of the committee, my name is Gus Norwood. For the past 11 years I have served as executive secretary of the Northwest Public Power Association which is comprised of 105 consumer-owned electric systems serving almost 2 million people in the States of Alaska, Montana, Idaho, Oregon, and Washington.

Most of our systems purchase all or part of their wholesale power from the Federal Government, either through the Bonneville Power Administration or the Bureau of Reclamation. During 1958 our systems paid into the U.S. Treasury somewhat over $25 million for electric power.

We have a vital stake in the Trimble bill. It deals with cost factors or ingredients which make up the power rates which we must pay.

We favor the Trimble bill in principle.

SELF-LIQUIDATING PRINCIPLE

We favor the basic principle that the Federal power program should be operated on a strictly self-liquidating basis. We know of no other sound policy or principle as an alternative. So we begin our testimony with the self-liquidating principle as our premise.

WHAT IS THE MAIN POLICY DECISION IN THE TRIMBLE BILL?

From our point of view and we think also in terms of the best interest of the Government the central issue in the Trimble bill is the decision as to the life of dams namely whether it shall be 50 years as in the past, or as we urge, a more realistic period of 100 years.

We think realistically that a 150-year period would be fully justifiable. Some experts in the Bureau of Reclamation have urged indefinite economic service life.

While the Bureau's advanced thinking about indefinite service life is appropriate for economic evaluation of projects, it is not proposed by the Bureau for payout purposes.

In turning to payout periods we wish to urge most strongly the use of a 100-year period for two main reasons: (1) Effect on power rates, and (2) effect on cost allocation with further effect on power rates.

First, interest and amortization charges constitute the chief factors in determining power cost from Federal projects. In the case of the U.S. Columbia River power system a 1 percent increase in debt service charges increases power cost 16 percent. Thus as 2½ percent interest is used by BPA, the interest cost constitutes 40 percent of the cost of power.

The annual debt service charge based on 2½ percent interest and a 50-year payout period is 3.5258 percent. For indefinite service life this drops to 2.5000 percent. For 100-year repayment period the charge annually is 2.7312 percent. The respective reductions in charges are thus 1.0258 percent and 0.7946 percent. As a matter of practicality, it will be seen that the 100-year repayment basis affords 77 percent of the advantage as compared to indefinite life for repayment purposes.

In terms of impact upon power rates the reduction of 0.7946 percent in debt service charge which results when the payout period of 100 years is used, gives a reduction in wholesale power rates of about 12 to 13 percent in the case of the U.S. Columbia River power system.

This may not seem like much, yet it is just another additional surcharge burden in the power rate. Private utilities are regularly allowed to use 100 years for depreciation of depreciable property and indefinite life for real estate and other assets. Thus if the Federal Government were to adopt a 100-year amortization period, it would still be a more severe requirement than the Federal Power Commission places upon private electric corporations.

Interestingly enough, it was the Federal Power Commission in the Bonneville Dam interim allocation report of 1945 which set the 50-year repayment requirement for Columbia River projects. Thus FPC has a double standard, a lenient policy for private utilities and a Draconian ground rule for Federal agencies. We think Congress should determine such highly important policy questions.

We recommend the adoption of a standard Federal practice of a 100-year repayment schedule, or the economic service life, whichever is shorter, for all Federal water resources projects.

Second, our other major reason for favoring a 100-year period is for cost-allocation purposes. An important distinction should be made at this point. The Congress can use different length periods for different purposes, just as a matter of policy. Thus a 100-year period for cost-allocation purposes happens usually to be of greater monetary importance to power users than a change from 50 to 100 years for payout purposes.

In the case of multiple-purpose projects it has long been a fact that the power benefits are achieved almost as fast as generators can be installed and the benefits then remain quite constant to give a generally horizontal benefits curve over the years.

In contrast the benefit curves for navigation and flood control are usually very low in the early years. It is not unusual for the development period of the project to require, as in the case of TVA, some 25 years. Then the curve rises dramatically. Thus in the second 50-year life period the benefits for flood control or navigation may be three or four times as great as they were in the first 50 years.

The consequences in terms of cost allocations will be apparent if one bases the cost allocation on 100 as compared to a 50-year basis. Except in the most unusual situations, the longer period should result in more reasonable cost allocations.

Unfair cost allocations have continually plagued the buyers of power from Federal projects. Not only is the normal bent of Federal officials in the direction of conservatism, but there appears to be considerable competition to appear to be more conservative or sound than the next official. This tendency is nurtured by tremendous pressure from private utility influences.

Against this tendency there has been no countervailing force. Only the Congress can rectify the situation. Furthermore, we consider the making of cost allocations to be an extension of the appropriations authority and responsibility placed by the Constitution in the Congress.

As a matter of philosophy, we think much can be said for the recommended 100-year policy. It is based on plenty of experience. We have much confidence in our dams lasting much longer than that. The physical, engineering, and economic justification is there.

Also the easy, most lucrative projects have generally been built. With each passing decade the benefit-to-cost ratios will become less unless the ground rules for making economic evaluations are made more realistic.

Finally, it is particularly incumbent upon the Federal Government to take the leadership in espousing the long-range point of view. It is illogical to expect the individual citizen to take the long-range point of view if the Government operates on a short-term, 50-year basis.

In contrast, it should be recalled that many of the cathedrals of Europe required hundreds of years for their construction, and many such buildings have been standing for over a thousand years.

COMPREHENSIVE DEVELOPMENT

We hasten to admit that the definition of "comprehensive plan," as used in H.R. 8, page 4, lines 5 through 14, originated in our office some years ago. It was originally proposed for inclusion in the Federal Power Act for tightening section 10(a) of that act to prevent any more Hells Canyon Dam fiascos.

The committee will wish to take note that Senator Warren Magnuson and others on January 20, 1959 introduced S. 584 which includes a slightly different handling of the problem of defining comprehensive plan by breaking down the definition into a series of definitions.

We do not quarrel with the definition used in H.R. 8. However, if the point is made that it is not sufficiently clear, then we would urge the making of a comparison with the language of S. 584.

INDIRECT BENEFITS

One of the large areas of future and most promising research in the field of water resources project economics is that of "indirect benefits."

The Bureau of Reclamation has done some pioneering in this field and has published a brief bibliography. The Trimble bill takes an important step forward in urging the consideration of both indirect costs and indirect benefits. Administrators may require a decade or more of research to develop suitable methodology for handling the indirect impacts of a project, but this study will not expeditiously be done without an adequate policy directive from Congress.

We strongly favor the inclusion of indirect costs and indirect benefits in evaluating water resources projects.

INTEREST RATES

We favor the lowest possible rate of interest at water resources projects. What that rate should be is a matter of judgment. The importance of the rate is indicated at critical projects like Hungry Horse Dam where an added 1 percent of interest would increase power cost 24 percent.

We are generally satisfied with both the 2 percent REA interest rate and the 2½-percent rate at Federal hydroelectric projects. We strongly oppose the suggestion that these rates should be increased to pay for artificial monetary policies. The approach of the Trimble bill to the interest rate question appears to be reasonable. The chief merit of the fixed 2- and 2½-percent rates is the ease and certainty of computation.

RECREATION BENEFITS

We favor the inclusion of recreation as a project purpose and that costs allocated to recreation be made nonreimbursable in the same manner as investments in national parks and monuments.

PREVIOUS TESTIMONY

Our previous testimony on the Trimble bill was filed on March 26, 1958, together with 13 exhibits on H.R. 965. We desire to incorporate this testimony by reference.

ENCLOSURE

Enclosed is our March 27, 1959, letter to Secretary of the Interior Fred Seaton discussing cost allocations and other factors determining Federal power rates.

SUMMARY AND CONCLUSIONS

We especially favor a congressional directive for a 100-year period for payout and cost allocation purposes at water resources projects.

We consider cost allocations to be part of the appropriations function, which, under the Constitution, should be finally approved by the Congress.

The origination of cost allocations should include the power-marketing agency. If authority and responsibility are to be commensurate, it is essential that the present inequity and stalemate be changed where the construction agency incurs the costs and makes the cost allocation while the power-marketing agency in effect obtains a pig in a poke and must sign a blank check in payment therefor. The solution to this hassel is for Congress to assert its authority. We do not know which of the 34 different methods of cost allocation could possibly be suitable to all projects. The recognized authorities in this field are agreed on only one conclusion: Cost allocation is a matter of judgment.

Our more recent thinking in favor of referral of cost allocations for final approval by Congress is reflected in S. 1927 to amend the Bonneville Project Act. The language appears in subsection 6(d) of S. 1927 at pages 18, 19, and 20.

We favor the inclusion of recreation as a project purpose on a nonreimbursable basis. We favor the inclusion of indirect costs and indirect benefits in project evaluation.

We endorse the Trimble bill H.R. 8 in principle. The mode and extent of endorsement is based on a 1957 resolution of this association which reads:

"We endorse the principles of the Trimble bill as regards cost allocations and other factors in Federal power rates."

Thank you.

NORTHWEST PUBLIC POWER ASSOCIATION, INC.,
Vancouver, Wash., March 27, 1959.

Re BPA wholesale rates.

Hon. FRED A. SEATON,
Secretary of the Interior, Department of the Interior, Washington, D.C.

DEAR SECRETARY SEATON: The time is near for the quinquennial review of Bonneville Power Administration's wholesale rates.

The outcome of this review is of much concern to the consumer-owned electric systems which comprise the Northwest Public Power Association.

Of the 114 wholesale power customers of BPA the 75 public and cooperative distribution systems in fiscal year 1958 paid $23,570,000 into the U.S. Treasury or 35 percent of BPA's revenue.

Our consumer-owned electric systems are unique. We operate on a nonprofit basis and pass on to our consumers in the fullest manner the benefits made possible by the U.S. Columbia River power system. We support full, multiple-purpose development of the Columbia River. We try to take a public interest point of view.

Upon the advice of our wholesale rate committee our board of trustees has directed a study be made of the various factors which have operated against the Bonneville Power Administration on electric rates.

RECOMMENDATION

On the basis of our study we think the sound and prudent business decision is to retain the present level of BPA wholesale power rates for the next 5-year period in order to permit an opportunity for certain adjustments to take place which, we think, will increase revenues and will reduce imputed costs.

Our optimism on overcoming the present depression in BPA's financial picture is based on a careful analysis which demontrates that a marshaling of the favorable factors can improve the BPA wholesale rate picture by at least 15 percent.

These favorable factors can overcome not only the present depressed conditions but also the anticipated higher costs of power from John Day, Ice Harbor, and other dams. Thus these factors can prevent a rate increase not only in 1959 but possibly in 1964.

Although some of these factors may depend on remedial legislation such as our proposed regional corporation bill, we think most of the changes can be effected by administrative decision.

Some of these administrative and legislative decisions may require 1 or more years to bring about. Fortunately BPA has accumulated a substantial surplus which can serve as a cushion during this period of adjustment.

1. Three potential economies at Grand Coulee Dam

The $12.8 million annual charge which BPA pays on behalf of Grand Coulee Dam contains three imputed costs which should be adjusted downward.

Ever since Grand Coulee dramatically stopped the 1956 Columbia River flood it has been obvious that a significant portion of the project should be allocated to flood control. By law, flood control is nonreimbursable and should not be charged to power users. Even if the time for making the change in allocation is postponed until all the flood values at Grand Coulee Dam are changed, the savings of perhaps $2 million per year can be anticipated.

A second imputed cost at Grand Coulee Dam is the result of a foreshortening of the payout schedule on the power investment from the normal 50 years to 32 years. This creates an unnecessary and arbitrary extra burden on power users of $1,900,000 per year.

Here is a dam which should last at least a thousand years yet is scheduled for amortization on practically an FHA housing mortgage basis. Our request is extremely modest as we believe that a 100-year repayment period would be fully justifiable. Indeed, Bulletin F of the Internal Revenue Service allows a 150-year depreciation period for dams. Hungry Horse Dam is on a 150-year depreciation period basis although on a 50-year basis for payout purposes.

The third imputed cost at Grand Coulee Dam appears to be a charge of about a million dollars a year because some of the irrigation subsidy charge has been placed on top of the power payout schedule. We strongly advise that all irrigation subsidy be placed after completion of the power payout schedule. This might entail a slight extension of the estimated irrigation subsidy period beyond the year 2022.

Some of this adjustment may require legislation. If Congress considers the Pacific Northwest account legislation, we intend to ask for amendments which will insure that the power repayment schedule for Grand Coulee is established at 50 years and that the irrigation subsidy commences in the 51st year.

After allowing for overlapping effect these three imputed costs amount to about $4,500,000 annually. Their elimination would reduce the annual charges payable by BPA on behalf of Grand Coulee Dam from $12.8 to $8.3 million.

2. Improvement in navigation cost allocation picture

The Army 308 review report for the Columbia River shows a doubling of the navigation benefits at Columbia and Snake River projects as compared to the 1948 predictions which were used by FPC in making the McNary Dam cost allocation.

In 1954 we protested the McNary Dam cost allocation because 97½ percent of the $147 million joint cost was charged against power. The present outlook in view of the doubling of navigation benefits is for the 97½ percent to be reduced at least to 81 percent, a transfer of $24¼ million from power to navigation. This should result in an annual saving of almost $1 million, which should be retroactive for each of the past 4 years.

The cost picture of the Dalles project is still in flux as generators are being installed. However, in the case of the Dalles Dam, this new allocation approach for navigation will reduce the burden on power users about a half million dollars per year increasing to about three-quarters of a million dollars in a few years.

The immediate economy on behalf of McNary and the Dalles projects is thus at least $1½ million per year. By itself this minor change in cost allocation, had it been placed in effect last year, would have cut in half the BPA accounting deficit for fiscal year 1958.

The same cost allocation approach will apply at John Day, Ice Harbor, and the future lower Snake River projects for a total ultimate saving of about $6 million a year.

3. Severe FPC standards hurt BPA

The standards for amortization period, cost allocation, and interest rates imposed upon the Bonneville Power Administration in the FPC cost allocation orders for Bonneville and McNary projects are unduly severe and considerably exceed the requirements of law.

First, the amortization period of 50 years as set by FPC is unduly severe as an interpretation of the Bonneville Act requirement that BPA shall observe the FPC uniform system of accounts.

Nowhere in the FPC uniform system of accounts is any public or private utility required to amortize real property or to depreciate the cost of a dam on a short-term 50-year basis. Private utilities quite generally use a 100-year depreciation period for hydroelectric projects.

TVA not only uses 100 years for depreciation purposes of new dams but uses a new 100-year period for depreciation of any addition to an old dam, as at the 40-year-old Hales Bar Dam which results in a 140-year depreciation period for that project.

The Bureau of Reclamation has been a leader in advocating longer economic service life of projects. The Hungry Horse Dam is on a 150-year depreciation period.

The trend is and must be in this direction. These Columbia River dams are free of silt problems and should last for at least a thousand years. They will provide society with tremendous benefits long after the completion of the pay-out period.

BPA accounting records already show the difference between the 50-year amortization basis and the standard FPC cost accounting basis using 100-year depreciation period. As of June 30, 1957, the BPA surplus on the former basis was $78.8 million whereas the cost basis shows $104.7 million surplus. This difference of $25.9 million generally indicates the order of magnitude of the extra burden which has been placed upon BPA in past years.

Another way of evaluating the difference is in terms of the annual debt service requirement, based on 2½ percent interest, which calls for 3.53 percent on a 50-year basis and only 2.73 percent on a 100-year basis. The difference of eight-tenths of 1 percent when applied to about $700 million of long life investment amounts to $5.6 million annually. This is 8 percent of BPA's annual cost.

Second, the FPC has been too severe in its cost allocation to power. The *McNary* case has been mentioned in connection with the tendency to underestimate and understate the navigation benefits and thereby overburden power.

However, this understatement of the navigation servitude is part of a larger problem of myopia with respect to time. A 50-year period is simply too short for measuring navigation benefits. This is illustrated by TVA experience.

Although TVA began construction in 1933, Congress had been pouring navigation investment into the Tennessee River for over a century. Wilson Dam had been completed in the early 1920's. Not until 1945 was the 630-mile inland waterway ready for through commerce. Then ensued a further decade of development while dock facilities were installed. Not until 1955 did the TVA navigation investment reach the breakeven point. In the past 4 years the computed rate of return has been spectacular due to a rising river traffic. The latest annual report shows an 11 percent rate of return, having jumped 2 percent each year since 1955.

The lesson of TVA is that navigation requires a development period of about 25 years. The Columbia-Snake River navigation waterway will not be completed until about 1980. River traffic will probably not mature until close to the year 2000. Probably the period 2000 to 2050 would provide a realistic period for determining average annual navigation benefits.

Because of the long development period, the curve for navigation benefits makes a very slow start. It then has an upward sweep such that the aggregate benefits in the second 50-year period will be three or four times as great and in the third 50-year period will increase further.

This leads to the recommendation that even when a dam is on a 50-year repayment period, that the cost allocation for navigation be computed on a 150-year basis. On this basis the allocation to navigation at McNary Dam should not only be doubled as currently recommended but should certainly be tripled.

This same approach is true for flood control allocations for projects like Hungry Horse, Detroit, Lookout Point, and similar upstream storage dams. Flood control projects may have an early benefit to the downstream areas, but the value of the benefit does not reach any mature level until reasonably full flood control is assured and after about a 25-year development period. Where many dams are needed, this may require some 50 years from the time the early projects are built until the maturity benefit value is reached. Again obviously an average of that 50 year period would understate the flood control benefit. Hence again a 150-year period is desirable.

Whereas the $2.4 billion Federal gross investment in the Columbia River as of June 30, 1957 included less than $100 million each for navigation and flood control, we think a realistic value is closer to $300 million each. The economy of a 3.53 percent debt service charge plus operation and maintenance costs on $400 million would result in a saving to power users of over $14 million per year initially and would increase to substantially larger amounts in later years.

Third, another heavy burden of imputed costs created by FPC is interest. No interest payment is required by the Bonneville Act. However, in 1945 in the Bonneville Dam cost allocation order FPC set the interest at 2½ percent on the basis of the cost of money on long term bonds.

TVA pays no interest. Irrigation projects pay no interest. The law does not require interest. Yet BPA as of June 30, 1957, had paid in $161.7 million. Interest is taking over 40 cents out of every BPA revenue dollar.

Even if one were to concede the necessity of imputing an interest charge, the question would remain as to the level of interest. There is at least one-half of 1 percent difference between the average cost of money to the Government as compared to the average cost on long-term bonds. We estimate that the more severe standard required by FPC has cost BPA about $50 million in direct interest or in interest charged to construction. Each one-half of 1 percent in interest increases the BPA wholesale power cost 8 percent.

Charging interest during construction and then interest on the interest raises another policy question, especially since the Bureau of Reclamation does not use this method.

If as a matter of policy, we concede that interest should be paid, then we would still hold in favor of only that cost which reflects actual cost of money to the Government. In respect to the amortization period and cost allocations we estimate, after deducting duplicative effect, a possible annual saving to power users of about $15 million in the short run and increasing as the power investment increases.

4. California intertie attractive

Turning to the revenue side of the BPA financial picture, the most promising of BPA's business prospects is the construction of the California intertie. A high-voltage, high-capacity interconnection between the U.S. Columbia River power system and the Central Valley project has been estimated to be worth around $8 million in terms of net income to BPA annually. We refer not to the proposed private utility 230,000-volt line, but to a major double circuit line of initially 345,000 and ultimately 460,000 volts. Because we understand the facts on this matter will soon be presented to the Congress, we will say no more in this letter except to emphasize the large amount of net income impact which this line could have on BPA.

5. Other methods of improving BPA revenue picture

As the U.S. Columbia River power system matures, a number of trends will improve BPA's revenue picture. As more upstream storage is added, there will be more downstream benefits from existing generators. Also as more downstream dams are built, there will be greater value from existing upstream storage reservoirs. Both ways BPA gains revenue.

Improvement in regional power can be anticipated as the region pulls out of the present depression. Certainly the market for interruptible power should improve over its present low state. Last year BPA sent about 15 percent of its power over the spillways. If it could have sold this power, it would have had some $9 to $13 million in additional revenue.

Another major area for improvement is that of industrial sales. BPA at one time had a reasonably dynamic power sales policy toward industry. In 1953 this policy was reversed by means of the 20-year private utility contracts which contain numerous anti-industry clauses. (See our memorandum pp. 123–127 of Senate hearings on S. 3114, May 21, 1958.) These clauses are probably ultra vires. In our view they can be canceled on the ground of being contrary to the public interest. They do not appear to us to be enforceable in any court. Whatever action is needed, we urge that the anti-industry policy of BPA be reversed and that BPA establish a staff to work with industry in an effort to assist regional economic development and at the same time improve BPA's revenue picture.

Finally, we think BPA should institute a study of services which it is providing but for which it does not receive adequate compensation. Our office continues to receive complaints that BPA does not charge adequately for its many power-pooling services, such as emergency backup, providing maintenance reserves, provisional power, peaking duty, certain types of wheeling and general operating reserves. We are not able to make this study. We urge that a study be made.

SUMMARY ON BPA FINANCIAL OUTLOOK

We think BPA will come out in good shape if action is taken on most of the factors listed in our letter. The rescheduling and new cost allocations at Grand Coulee Dam, the new cost allocations at the navigation projects, a revision of the ground rules used by FPC in making cost allocations, and the improved outlook in revenues by greater sale of power as by means of the California intertie, all serve to paint a promising and optimistic picture of BPA financial prospects.

On balance it appears reasonable that a 15-percent improvement can be expected in BPA's financial outlook. This amounts to $15 million when BPA revenues reach the $100 million per year level, and about $30 million when BPA revenues reach the $200 million per year level.

For all of these reasons we respectfully recommend and request that you recommend to the Federal Power Commission a continuation of the present general level of wholesale power rates for the Bonneville Power Administration.

Respectfully submitted.

GUS NORWOOD, *Executive Secretary.*

STATEMENT OF HON. WILBUR D. MILLS, SECOND DISTRICT, ARKANSAS, BEFORE THE HOUSE COMMITTEE ON PUBLIC WORKS

Mr. Chairman and members of the committee, thank you for the opportunity of making this statement in support of legislation to set up a national policy for development of our river and water resources. I have introduced H.R. 4593 on this subject, and the bill has been referred to your committee for consideration.

Development of our water resources is one of the great challenges facing our Nation. With our increasing population and industrial activity, wise and full use of our water is essential. It is important for our own domestic needs, and it is important in our battle for world strength.

Under such conditions an overall policy should be provided by the Congress to guide the executive agencies in river development, to assure that this development continues in a timely manner, and that the fullest use is made of our water resources.

The bills you are now considering will accomplish these objectives. After careful deliberation I hope you gentlemen are convinced the legislation should receive favorable action.

Thank you.

NATIONAL LUMBER MANUFACTURERS ASSOCIATION,
Washington, D.C., August 4, 1959.

Hon. CHARLES A. BUCKLEY,
Chairman, Public Works Committee,
House Office Building, Washington, D.C.

DEAR MR. BUCKLEY: We have studied the provisions of H.R. 8 relative to the development of water resources on which hearings have been recently held. We have also studied in that connection the detailed statement supplied your committee on July 14, 1959, by the chamber of commerce of the United States. We concur in the views expressed by the chamber and join in urging that this legislation not be approved.

Should H.R. 8 be enacted, the door would be opened to the construction of Federal water projects without due regard to the economic justification which should govern decisions of your committee and the Congress. The result would be the authorization of many uneconomic projects and the unjustified inundation of private timberlands. As you know, this has become a serious problem to the forest products industry.

We have repeatedly stated that we take no exception to projects that are fully justified from an economic standpoint and thoroughly in the public interest. Increasingly, however, we have found that our industry's private timberlands are being taken for projects that after careful analysis are not so justified. Since we strongly believe that lands which have a greater value for forestry purposes than for other uses should be retained in private ownership, we urge that there be no relaxation of the criteria for determining the cost-benefit ratio of Federal water projects.

It will be appreciated if this letter will be included in the printed hearing record on H.R. 8.

Sincerely,

A. Z. NELSON,
Director, Industry-Government Affairs Division.

STATEMENT OF ANGUS MCDONALD, COORDINATOR OF LEGISLATIVE SERVICES, NATIONAL FARMERS UNION, IN REGARD TO H.R. 8, A BILL TO ESTABLISH POLICY IN REGARD TO WATER RESOURCES

Mr. Chairman and members of the committee, the National Farmers Union appears in support of H.R. 8, a bill which would establish policy and procedure for the development of water resources for lakes, rivers, and streams. Enactment of this legislation is much overdue. We have previously appeared on similar legislation before other committees.

I call the committee's attention to a statement of National Farmers Union presented to the subcommittee of the Senate Public Works Committee on investigation of electric power rates relating to Southwestern Power Administration, "Power Rates—Southwestern Power Administration, February 27–March 15, 1956", pages 554–564. At that time we outlined in some detail why the Trimble bill should be enacted and suggested that such legislation was made more urgent because of maladministration by the departments of Government responsible for the execution of congressional water policy. In this statement, we documented our charges that there has been a deliberate attempt to sabotage the purposes of Congress as set forth in various pieces of legislation.

Subsequently, we appeared before the House Interior Committee and gave further information in regard to water policies and particularly in regard to the situation in the Southwest. In that area administrators in the Department of Interior had juggled the cost allocation formula to the detriment of preference customers.

At the present time, our views in regard to water policy and maladministration in the Department of Interior and in other agencies have been been reinforced. We listened attentively to the testimony of Charles Robinson, staff engineer for National Rural Electric Cooperative Association. It seems to us that this witness set forth the situation in regard to water policy succinctly and clearly.

There is no need to burden the record with repetitious details. We will not recite again all the facts that have been developed at this hearing. We desire to associate ourselves with the NRECA statement and with the statement submitted by Kenneth Holum, executive director of the Midwestern Electric Consumers Association.

Particular attention, however, is called to statements of administrative agencies, including the Department of Interior and the Budget Bureau for the need of writing into law congressional water policy. It appears that Congress has been dilatory in regard to spelling out detailed water policy directives. The administrators have been operating somewhat in a vacuum and have set up their own policies and have even gone so far as to completely reverse policies, which although not spelled out by Congress had been acquiesced in over a long period of years.

Apparently, because administrative agencies desired to destroy and hamstring electric power development, they set up a system whereby power by one means or another was saddled with more than its share of costs. The Department of Interior and Bureau of the Budget acted to brush aside old formulas and old methods of repayment in their desire to saddle power users with huge costs which have been previously allocated to flood control and navigation.

One point which the witness referred to above did not develop is the obvious motives of those who have been acting like a bull in a china shop in regard to Federal power and water programs. By one means or another this administration has attempted to destroy, or at least weaken, the rights of preference customers. First, Department of Interior officials invented the Missouri Basin criteria. Next they conspired with groups like the Pacific Gas & Electric Co. to rewrite regulations to the detriment of preference customers. Other methods were used such as the denial of power to preference customers; this particular device was used in the Southwest power area. We documented this charge in our testimony presented to the Senate Public Works Committee.

It appears the reallocating costs and the juggling of formulas are the latest wrinkle in the attempt to destroy Federal water and power programs. We do not think it coincidental that when a decision is made in regard to the rights of preference customers, the preference customers seem to always come out on the little end of the deal. History of the policy of this administration indicates that officials in the Department and other agencies have not only acted to destroy rights of preference customers, when no explicit congressional statute applied, but they have even ignored congressional policy when it was clearly set forth and have actually resorted to deceit and subterfuge. I refer to Assistant Secretary Aandahl's concealment of the Attorney General's opinion in regard to the Clark-Hill contracts.

But regardless of the action or inaction of any administrator, the need for clear-cut water policy is clear. Water is becoming a critical problem in many areas throughout the United States. Water, next to soil, is perhaps our most precious asset. We believe that the Trimble bill, H.R. 8, is a sound approach to the solution of the water problem. While we are not opposed to minor changes in the bill, we strongly urge that the bill should be approved by the committee.

STATEMENT OF THE CHAMBER OF COMMERCE OF THE UNITED STATES TO THE HOUSE PUBLIC WORKS COMMITTEE WITH RESPECT TO H.R. 8

The Chamber of Commerce of the United States urges this committee not to approve H.R. 8 relative to the development of water resources. In our opinion, H.R. 8 would increase Federal responsibility and add to the heavy burden of taxpayers, without justification on the basis of the national interest.

The proposed policies and procedures set forth in the bill are not in the national interest because:

1. They would depart from sound and economic justifications for Federal water resource development;

2. They would provide additional subsidies by all taxpayers to selected beneficiaries, namely, the so-called preference customers who claim first right to purchase power produced at Federal water and power projects;

3. They are in conflict with criteria and standards which are acceptable to to the Federal construction agencies and have proven to be fair;

4. They move in the opposite direction from a sound and equitable national water resources policy.

Federal water resource programs are progressing as rapidly as necessary and within the limits of available human and financial resources. It would be unwise to increase the backlog of projects which have been authorized and not started by adding projects which cannot be justified economically. There is no overriding necessity to step up Federal programs by lowering standards used to justify Federal appropriations as proposed in H.R. 8.

Numerous Federal agencies are engaged in developing and conserving the Nation's water resources. They share responsibility with State and local governments and with private citizens. The Federal agenices now operate under a multitude of separate laws and a variety of standards. Any system of policies and procedures attempting to outline the conduct of Federal programs should provide close coordination among the agencies and a single standard of operation—in short, a national water policy. Recommendations along these lines have been made by several national commissions, including the Second Hoover Commission and the President's Advisory Committee on Water Resources Policy.

The problem seems to be how to evolve a truly national water policy, one which defines the Federal role, recognizes State and local responsibility, and preserves the basic rights of private citizens.

Two provisions of H.R. 8 are unwise revisions of existing policy and procedure applicable to Federal departments and agencies in the development, utilization, and conservation of water resources:

1. The period of time required for complete repayment of power project costs would be lengthened from 50 to 100 years. Rate schedules for repayment of the power costs would reflect this stretchout and result in deliberate lowering of power rates to the preference groups, which are a relatively small fraction of the Nation's power users.

2. The construction costs of various phases of Federal multiple-purpose projects would be allocated or charged by a formula known as the incremental method. Under this method a relatively low allocation (about 50 percent) would be made to the power features of a Federal dam, thus assigning an apparently low cost to be repaid by power users. The result is so-called cheap Federal power.

The Bureau of the Budget and the Federal construction agencies disapprove use of the incremental method of cost allocation, and are using a more realistic method of assigning costs to various purposes of Federal water projects. Using this method for computing the power costs, the power allocation is approximately 61 percent of total project costs, or about 11 percentage points higher than under the incremental method, and more nearly the true picture of power costs. The present method assigns a fairer share of joint costs to those features which are repayable and a more proportionate share to nonreimbursable features such as flood control.

H.R. 8 would establish an inflexible legal standard for lower allocations to the power features of Federal water resource projects. The obvious purpose of changing from the present method to the more liberal incremental method is to reduce the apparent cost of power and permit its sale below true cost. When the "cheap" Federal power thus produced is sold under Federal laws calling for "preference" to cooperatives and public bodies, the general taxpayer makes up the difference between true cost and selling cost.

In addition to these two special-purpose provisions of H.R. 8, other provisions would serve to reduce costs to project beneficiaries and increase costs to Federal taxpayers.

Interest rates.—H.R. 8 would set below-cost interest rates for the repayment of Federal funds invested in multiple-purpose projects. Rates would be computed by a method and over a period of time such as to be lower than the actual Government cost for long-term borrowing. This would constitute another unnecessary subsidy from taxpayers to project beneficiaries.

Secondary benefits.—H.R. 8 would include as direct benefits from Federal projects certain values which are now considered indirect or incidental to authorized purposes. Included at Federal expense would be the secondary benefits of recreation, calculated at the assumed rate of $1 per visitor per day. These assumed values would be added to primary benefits for which definite monetary values can be computed, and would be nonreimbursable—that is, charged to the general taxpayer.

Such valuation of secondary benefits departs from sound benefit-cost analysis. It would establish recreation benefits as a major factor favoring Federal investment in multiple-purpose projects. It follows the illogical thesis that omission of such benefits from benefit-cost ratios "deprives the Nation of opportunity to develop a sound water resource project."

Uneconomic increments.—H.R. 8 would permit the inclusion in Federal projects of units or features which by themselves might not be economically feasible. Project purposes which cost more than the benefits to be realized could be added to another project if such inclusion would not reduce the total benefits below total costs. This form of subsidy provides for the "paying" portions of a project to carry the "nonpaying" portions. The obvious result is that taxpayers would pay for something not worth having.

We reject as basically unsound the argument that uneconomic features should be included in worthwhile and feasible Federal projects if they are merely "desirable" and would not upset a favorable total benefit-cost ratio.

In summary, the chamber of commerce disagrees with many of the proposed changes in Federal policies and procedures. H.R. 8 would revise basic rules in order to provide benefits to selected groups at taxpayers' expense.

The primary intent of the legislation appears to be to get more water and power projects built at Federal expense by departing from standards and justifications determined by sound economic evaluation. H.R. 8 would require extensive revision before it could be considered an acceptable definition of national water resources policy. Whenever any commodity or service is underpriced, the tendency is for demand to outrun supply. Full-cost pricing is essential to promote the optimum allocation of resources.

We therefore recommend that this legislation not be approved.

Mr. DAVIS. We will recess now, subject to the call of the Chair.

(Whereupon, at 3:45 p.m. the committee was adjourned subject to call of the Chair.)

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